Canadian Pacific Limited

Revised October 10, 1986 (IC)

Destroy all previous Basic and White cards on this Company, and Canadian Pacific Enterprises Limited

CUSIP Number 136440

Stock Symbol CP

Head Office — 910 Peel St., P.O. Box 6042, Station A, Montreal, Quebec H3C 3E4

Telephone — (514) 395-5151

THE COMPANY, directly and through subsidiaries, is involved in rail, air, ship, and truck transportation; oil and gas; mines and minerals; forest products; steel and industrial products; real estate; other business including grain milling, telecommunications and chinaware production; and in financial services including debt financing, corporate insurance and international consulting.

COMPARATIVE DATA

Fiscal Year	Total Assets	L.-Term Debt	Shldrs.' Equity	Total Revenue	Net Inc. Oper.	Earns. Per Sh.	Divds. Paid	Price Range High	Price Range Low
	000's					—Ordinary Shares•—			
	$	$	$	$	$	$	$	$	$
1985....	21,445,926	6,683,495	6,161,683	15,040,286	246,720	1.11	0.48	21.75	15.88
1984....	18,796,122	5,766,797	4,522,943	14,635,095	376,903	1.75	0.47	17.88	12.38
1983....	17,601,949	5,828,994	4,052,571	12,759,297	143,592	0.66	0.47	17.75	11.75
1982....	17,273,034	5,831,240	3,990,981	12,301,895	188,294	0.87	0.55	14.00	8.29
1981....	16,330,185	4,940,186	3,929,369	12,336,226	485,579	2.25	0.63	18.33	12.29

•Adjusted throughout for 3-for-1 split, May 17, 1985.

CONSOLIDATED CAPITALIZATION AS AT DECEMBER 31, 1985

	Outstanding		%
Long-term debt		$6,683,495,000	51
Perp. debenture stock		184,981,000	2
Preference stock	13,275,585 shs.	14,870,000	6
Ordinary stock	297,705,933 shs.	760,552,000	
Stock premium & paid-in surplus		1,344,841,000	10
Foreign currency translation adj.		302,777,000	2
Retained income		3,738,643,000	29

SUMMARY STATEMENT

For the three months ended Mar. 31, 1986, total revenues increased marginally but net income dropped to $8,350,000 from $57,515,000 for the same year earlier quarter. The disappointing results were attributed to unsatisfactory performance by CP Air and CP Ships, the collapse of oil prices, and weak markets for resource products.

Merger of Canadian Pacific Limited with Canadian Pacific Enterprises Limited was effective Dec. 6, 1985. Under the merger, Canadian Pacific Enterprises became a wholly-owned subsidiary of the company. See 1985 Merger, page 2.

For the year ended Dec. 31, 1985, net income fell 35% on a 10% decline in revenues. Net income for 1985 was reduced by $28,000,000 due to a change in accounting for investment tax credits. Also depressing results was a shortage of grain traffic for CP Rail, weakened markets for natural resources, and rising airline costs. 1985 results also reflect certain write-downs by Cominco.

Nordair Inc. is now 65% owned by CP subsidiary, CP Air Ltd. following a December, 1985, takeover bid for all outstanding common shares of Nordair.

A 3-for-1 split of the company's sterling preference, Canadian dollar preference and ordinary shares took effect May 17, 1985.

A dividend rate of 48 cents per ordinary share per annum was established with the quarterly payment of 12 cents per share on July 29, 1985 (first following 3-for-1 split). Previously, an annual rate of $1.40 per ordinary share was paid quarterly from Oct. 28, 1982 to Apr. 29, 1985 inclusive.

N.B.—For quick reference data and index, see page 2.

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QUICK REFERENCE DATA

Major Shareholder—At March 10, 1986, Caisse de dépot et placement du Québec owned 26,604,145 ordinary shares representing 8.93% voting interest.

Employees—Average of 123,400 in 1985.

Incorporation—Dominion of Canada by Special Charter dated February 16, 1881; continuance May 2, 1984.

Auditors—Price Waterhouse, C.A., Montreal.

Fiscal Year Ends—December 31.

Annual Report Appeared—In April in 1986.

Annual Meeting—May 7 in 1986.

Listed—CP; Ordinary: Montreal, Toronto, Vancouver, New York and London Stock Exchanges; Sterling Preference and Canadian Dollar Preference: Montreal, Toronto, Vancouver and London Stock Exchanges; Debenture Stock (Sterling): on London Stock Exchange. Debenture Stock (U.S. currency): New York Stock Exchange.

Shareholders—At December 31, 1985, there were 84,162 registered holders of the voting capital stock. Distribution of voting rights by country was Canada, 79.44%; U.S., 15.40%; U.K., 1.79%; and other countries, 3.37%.

Transfer Agents—Bank of Montreal Trust Co., New York; Deputy Secretary of the company, London, England; Montreal Trust Co., Halifax, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

Registrars—Manufacturers Hanover Trust Co., New York; Bank of Montreal, Halifax, Montreal, Winnipeg, Calgary, Saint John, Toronto, Regina, Vancouver and London, England.

Rank in FP 500—2 by sales; 3 by assets.

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COMPANY

The company, directly and through subsidiaries, owns and operates, a transcontinental railway system, a national and international airline, a regional air carrier and a chain of hotels. Also conducts ocean shipping, trucking, other transportation and telecommunications services and engineering and management consulting services.

The company has operations in oil and gas, mines and minerals, iron and steel, agriproducts, real estate, finance and other business.

The company's name in French is **Canadien Pacifique Limitée.**

1985 MERGER

On Dec. 6, 1985, wholly owned subsidiary, CPS Limited, amalgamated with 69.6% owned Canadian Pacific Enterprises, pursuant to the Canada Business Corporations Act, to continue under the name Canadian Pacific Enterprises Limited. The amalgamated company became a wholly owned subsidiary of Canadian Pacific Limited. CPE common shareholders received 1.675 ordinary shares of CP Ltd. for each share held. Common shares of CPS Ltd. were converted to common shares of the amalgamated company on a share-for-share basis. CP Ltd. also received one share of the amalgamated company for each of its shares issued. All fractional shares were satisfied with cash. CPE's cumulative redeemable convertible preferred shares series B were retired prior to the amalgamation at $20.562 per share plus accrued dividends. The amalgamated company then became a wholly owned subsidiary of CP Ltd.

Under the terms of the amalgamation, a total of 78,942,444 ordinary shares of CP Ltd. were issued representing a value of $1,401,228,000.

REVENUES

Revenues (including inter-area transfers) by industry segment for the past two years have been as follows:

	1985		1984*	
	$000's	%	$000's	%
Rail Trans.	3,367,215	22	2,989,478	20
Non-Rail Trans.	2,145,730	14	1,947,738	13
Oil & Gas	1,137,105	7	1,055,358	7
Mines & Minerals	1,811,225	12	1,947,845	13
Forest Products	2,161,925	14	2,199,331	14
Steel & Ind. Prods.	3,288,739	21	3,017,627	20
Real Estate	279,553	2	277,570	2
Other	1,143,302	7	1,475,686	10
Financial & Misc.	208,190	1	231,905	1
	15,542,984	100	15,542,984	100

*As shown in 1985 annual report.

Revenues (excluding inter-area transfers) by geographic segment have been as follows for the past two years:

	1985		1984	
	$000's	%	$000's	%
Canada	11,143,103	74	11,057,102	75
United States	3,146,485	21	2,869,899	20
Other countries	397,816	3	367,930	3
Int'l.-seagoing	352,882	2	340,164	2
	15,040,286	100	14,635,095	100

NET INCOME

Net income by industry segment has been as follows for the past two years:

	1985		1984*	
	$000's	%	$000's	%
Rail Trans.	124,756	51	198,446	53
Non-Rail Trans.	d25,258	(10)	d6,776	(2)
Oil & Gas	188,579	76	182,795	48
Mines & Minerals	d37,301	(15)	14,628	4
Forest Products	d16,816	(7)	d6,898	(2)
Steel & Ind. Prods.	d1,419	....	d27,317	(7)
Real Estate	20,128	8	19,117	5
Other Businesses	20,770	8	33,033	9
Financial & Misc.	d26,719	(11)	d30,125	(8)
	246,720	100	376,903	100

*As shown in 1985 Annual Report.

Net income by geographic segment has been as follows for the past two years:

	1985		1984	
	$000's	%	$000's	%
Canada	250,974	102	362,928	96
United States	d2,124	(1)	28,861	8
Other countries	17,000	7	8,720	2
Int'l.-seagoing	d19,130	(8)	d23,606	(6)
	246,720	100	376,903	100

OPERATIONS

Rail Transportation

1985 Operating Results—Net income was down 37% on a revenue increase of 13%.

CP Rail—The rail and intermodal divisions transport bulk commodities, and manufactured and processed goods over a 15,000-mile railway system serving most of the principal centres of Canada and connecting with major U.S. railroads including the Soo Line. The head office is located in Montreal with regional offices in

Toronto, Winnipeg, and Vancouver. Operating centres are located across Canada; sales offices are in the United States and overseas.

1985 Operations—CP Rail's net income fell 28% to $133,400,000 on a 2% drop in revenue. This drop was largely attributed to reduced grain traffic as a result of the Prairie drought and a decrease in international demand. Net income was also reduced by $16,000,000 due to a change in accounting for investment tax credits.

Soo Line Corporation—Provides rail service for transportation of resource and manufactured commodities over 7,600 miles of line in 12 midwestern states. Truck operations include intermodal and common carrier road services. Head office is in Minneapolis, Minn. with major terminals and maintenance facilities in Minnesota, Illinois, Wisconsin, Iowa, and Missouri.

1985 Operations—Revenues nearly doubled to $848,100,000 but the company's share of Soo Line's net loss was $8,700,000 compared with net income of $12,900,000 in 1984. Chief reasons were reduced traffic volume and higher interest expense associated with the purchase of the Milwaukee Road rail system on Feb. 19, 1985.

Non-Rail Transportation

1985 Operating Results—Despite a revenue increase of 10%, net losses increased to $25,000,000 from $7,000,000 in 1974.

Canadian Pacific Air Lines, Limited—One of Canada's international flag carriers. Transports passengers, cargo and mail over network of 23,300 Canadian route miles and 49,200 international route miles with 68 aircraft. In addition to transcontinental and regional services in Canada, the airline serves Tokyo, Hong Kong, Honolulu, Nandi (Fiji), Sydney, Auckland, San Francisco, Los Angeles, Pittsburgh, Fort Lauderdale, Buenos Aires, Lima, Santiago, Amsterdam, Lisbon, Rome and Milan. The airline also operates charter and tour services to a number of destinations. Head office is located in Vancouver, B.C. with operating offices located throughout its system and sales offices around the world. See separate cover in back of this Basic Card.

1985 Operations—CP Air revenues were up 14% but the company contributed a net loss of $8,900,000 compared with net income of $13,800,000 in 1984. While the hotel division performed well, airline results were affected by higher costs.

CP Ships—Through Canada Maritime Limited, 57% owned by Centennial Shipping Limited, container services are provided using four large vessels on the North Atlantic. Ports of call are Montreal, Felixstowe (England), Le Havre, Antwerp and Hamburg. Other services include a North Atlantic conventional ro/ro service and a container service linking Montreal with the Mediterranean. Head office is in Hamilton, Bermuda.

Through Canadian Pacific (Bermuda) Limited, the company owns and operates a diversified fleet of 30 tankers and bulk carriers around the world under a variety of commercial arrangements. Head office is in Hamilton, Bermuda.

1985 Operations—While revenues of CP Ships increased only 4%, the company reduced losses to $19,100,000 from $23,600,000 a year earlier. This reduction of losses was due largely to the strength of the Container Operations division which had undergone a major reorganization of services and had increased westbound traffic.

CP Trucks—CP Express & Transport offers a full range of road transport services including less than truckload, parcel delivery, truckload, specialized bulk systems, household and commercial moving and courier. Head office is in Toronto with more than 200 terminal locations throughout Canada and six terminals in the eastern United States.

CanPac International Freight Services engages in customs brokerage, international freight forwarding by land, sea and air for Canadian export and import trade, bulk liquid storage and warehousing. Head office is in Montreal with branch office and operations in Nova Scotia, Quebec, Ontario, Manitoba, Alberta and British Columbia and agents worldwide.

1985 Operations—Although revenues increased 3%, net income fell 10% to $2,800,000 from results in 1984. CP Express & Transport had reduced income primarily from difficulties in its General Commodities division. CanPac, however, showed an earnings increase with higher volumes and better prices.

Oil and Gas

1985 Operating Results—Net income increased 3% on an 8% rise in revenues.

PanCanadian Petroleum Limited—PanCanadian is one of the largest Canadian-owned hydrocarbon businesses and is engaged in the exploration, production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Products are sold primarily in Canadian and U.S. markets. Head office is located in Calgary with other offices in London, England; Colorado, and Texas. Exploration and development activities are primarily in western Canada, but also in the U.S. and U.K. See also separate Basic Card on PanCanadian.

1985 Operations—PanCanadian has increased production for all products but reduced natural gas prices kept earnings down.

Mines and Minerals

1985 Operating Results—This group recorded a net loss of $37,000,000 compared with net income a year earlier of $15,000,000. Revenues were down 7%.

Cominco Ltd.—One of the world's largest metal producers and smelters of zinc and lead. Other major products include gold, silver, copper, industrial chemicals and fertilizers. Markets are located internationally. Head office is in Vancouver with major metallurgical plants at Trail, B.C.; mines are located in Canada, the United States, Greenland, Spain and Australia, with fertilizer production plants in Canada and the U.S. See also separate Basic Card on Cominco.

1985 Operations—Net loss from Cominco of $49,400,000 compared with net income a year earlier of $3,900,000 on revenues which were down 8%. The downturn in metal prices together with a write-down of certain investments in 1985 led to Cominco's substantial loss. Late in 1985, Cominco agreed to sell $69,000,000 of preferred shares to the Canadian government to finance modernization of its lead smelter at Trail, B.C. Also, in early 1986, Cominco sold its 40% interest in Fording Coal to CP Ltd. to reduce its debt.

Fording Coal Limited—Develops and processes metallurgical and thermal coal reserves. Holds large undeveloped coal deposits in western Canada. Markets include blast furnace steel producers, utilities and other coal consumers world-wide. Head office is in Calgary, with mine sites in Alberta and southeastern B.C.

1985 Operations—Despite declining coal prices and a drop in demand, Fording Coal recorded net income of $7,400,000, up 16% on a 3% decline in revenue from 1984.

Processed Minerals Incorporated—Major products are salt for agricultural, water softener and human consumption and wollastonite for industrial applications. Head office is in Hutchinson, Kansas, with salt facilities in Hutchinson and Florida and wollastonite facilities in New York State.

1985 Operations—Income from Processed Minerals was up 13% to $3,400,000, principally due to higher prices and a better mix of wollastonite products.

Steep Rock Resources Inc.—Manufactures a wide range of calcite products for industries in Eastern Canada and the United States; has interests in other nonmetallic minerals, undeveloped iron ore properties and exploration for precious metals in Ontario. Head office is in Toronto with manufacturing facilities at Perth, Ont. See separate Basic Card on Steep Rock.

1985 Operations—Earnings from Steep Rock of $319,000, were up 49% from 1984, due to steady improvement in its calcite division.

Forest Products

1985 Operations—Net losses increased to $17,000,000 from $7,000,000 in 1984 on a 2% decline in revenues.

CIP Inc.—One of the world's largest producers and

marketers of newsprint, the company supplies publishers in more than 35 countries. Also produces pulp packaging materials, tissue products and building materials. Markets are located in North America, western Europe and Asia. Head office is in Montreal with facilities located in New Brunswick, Quebec, Ontario and British Columbia

1985 Operations—Net loss increased to $16,600,000 from $73,800,000 a year earlier, on a decline of 2% in revenues. Severely reduced prices, due to excess supply, affected 1985 results. However, lumber operations were showing strengthening markets and improved cost efficiencies.

Great Lakes Forest Products Limited—Major products are kraft pulp and newsprint. Also manufactures fine papers, stud lumber and waferboard. Principal markets are in the United States. Head office is located in Thunder Bay, Ont. with facilities at Thunder Bay and Dryden, Ont. with wood resources nearby. See also separate Basic Card on Great Lakes Forest Products.

1985 Operations—Revenues fell 2% and Great Lakes Forest Products contributed net loss of $200,000 compared with net income to the company of $6,800,000 in 1984. Depressed prices and lower shipments were cited as factors in 1985 results.

Steel and Industrial Products

1985 Operations—Net losses were reduced to $1,000,000 from $27,000,000 a year earlier. Revenues rose by 9%.

The Algoma Steel Corporation, Limited—Canada's third largest fully integrated steel producer. Principal product lines are sheet and strip, plate, seamless tubulars, structural shapes and rails with markets in Canada and the United States. Head office and steelworks are located in Sault Ste. Marie, Ont. with mining operations in Ontario, Michigan and West Virginia. See also separate Basic Card on Algoma Steel.

1985 Operations—Despite depressed selling prices, Algoma Steel reduced its losses through cost reductions and increased shipments of steel products.

AMCA International Limited—Engaged in the design, engineering, manufacturing, marketing, installation and financing of a broad range of industrial products, construction equipment, engineering and construction services and machine tools. Markets are chiefly in the United States and Canada. Head office is in Hanover, N.H. with divisions and subsidiaries primarily in the U.S. and Canada. AMCA also has manufacturing and distribution facilities in Europe, Africa, the Far East and Australia. See also separate Basic Card on AMCA International.

1985 Operations—Net income of $6,200,000 from AMCA was recorded compared with net loss of $900,000 for 1984 while revenues were up 10%. Included in the 1985 income was $7,100,000, representing dividend income from AMCA's preferred shares ($900,000 in 1984). Volume growth, cost reductions, and rationalization were cited as factors in the turnaround.

Real Estate

1985 Operating Results—Net income was up 5% on a 19% increase in revenues.

Marathon Realty Company Limited—Develops, owns and manages income-producing properties including shopping centres, and office, industrial, aviation-related and residential buildings. Also holds business and industrial parks as well as commercial lands. Head office is in Toronto with properties located across Canada and the U.S. Regional offices are in Vancouver, Calgary, Montreal, Halifax, Chicago, San Francisco, Atlanta, and Portland, Oregon.

1985 Operations—Higher rentals from buildings more than offset a decline in property sales and contributed to Marathon's record high earnings in 1985.

Maple Leaf Mills Limited—Produces industrial and consumer flour and flour-based products, including baked goods; operates one of the largest rendering businesses in Canada and a poultry business in Ontario; markets a full range of animal and poultry feeds and distributes grain. Head office is in Toronto with plants in nine Canadian provinces, the Caribbean and Europe. See also separate Basic Card on Maple Leaf Mills.

1985 Operations—The reduction in net income of $3,700,000 from 1984 results represented a loss on the sale of Maple Leaf's 50% interest in Maple Leaf Monarch Company. Excluding this, earnings were actually slightly improved, continuing a three-year trend of gradual improvement.

CP Telecommunications—Provides in partnership with Canadian National Railways, a comprehensive communications service involving mainly Telex, Data Telex, customer designed private line voice and data services, Telepost, Infoswitch and Electronic Office services. Head office is located in Toronto with regional offices in Vancouver, Toronto and Montreal. Operations centres and sales offices are located across Canada.

1985 Operations—Net income rose 11% on a 3% increase in revenues, continuing an upward trend. Higher rates and greater volumes were the principal factors in this growth.

Syracuse China Corporation—Manufactures commercial chinaware mainly in the United States. Markets include commercial and industrial segments of the food service industry. Head office is in Syracuse, N.Y. with plants located in Syracuse, Pennsylvania and Quebec.

1985 Operations—Income from Syracuse China was $4,400,000 up 29% over 1984 as a result of a full year's input from a late 1984 acquisition.

Financial and Miscellaneous

1985 Operating Results—Net losses declined to $27,000,000 from $30,000,000 in 1984. Revenues were down 10%.

Canadian Pacific Securities Limited—Raises money through bank loans, short term promissory notes and medium and long term debt in order to provide financing for various companies in the Canadian Pacific Group. Also active in domestic and international money markets. Head office is in Toronto.

1985 Operations—Earnings were down to $1,100,000 from $1,200,000 in 1984.

Arion Insurance Company Limited—Provides corporate insurance services and international reinsurance. Also offers range of financial, accounting and management services to offshore companies. Head office is in Hamilton, Bermuda.

1985 Operations—Arion had break-even results in 1985, compared with a loss of $10,800,000 in 1984.

Canadian Pacific Consulting Services Ltd.—Provides international consulting in engineering, economics and management in the areas of transportation, communications, hotels and resource development. Head office is in Montreal with offices located in Canada and overseas.

1985 Operations—A decline in contract business and higher expenses resulted in a loss of $14,000 in 1985, compared with income of $610,000 in 1984.

CAPITAL EXPENDITURES

Consolidated capital expenditures in recent years have been as follows:

1976	$729,901,000	1981	$2,322,727,000
1977	572,641,000	1982	1,966,710,000
1978	917,115,000	1983	1,173,146,000
1979	1,219,866,000	1984	1,343,097,000
1980	1,585,033,000	1985	$1,896,334,000

Capital expenditures by industry segment have been as follows in the last two years:

	1985		1984*	
	$000's	%	$000's	%
Rail Trans.	609,266	32	467,880	35
Non-Rail Trans.	230,365	12	131,532	10
Oil & gas	430,993	23	283,878	21
Mines & Minerals	170,208	9	155,531	12
Forest Products	120,843	6	91,736	7
Steel & Ind. Prods.	202,268	11	60,909	4
Real Estate	76,727	4	105,889	8
Other Businesses	54,462	3	44,455	3
Financial & Misc.	1,202	....	1,287	....
	1,896,334	100	1,343,097	100

*As shown in 1985 Annual Report.

Commitments—Total commitments for capital expenditures at Dec. 31, 1985 were $434,000,000. These are principally for acquisition of equipment by CP Rail, purchase of two new Boeing 737s for delivery to CP Air in 1986, and for Algoma Steel's new coke oven battery and the seamless tube mill project.

HISTORY

When British Columbia joined the Dominion of Canada in 1871, one of the conditions was that a connecting railway should be built. After several years of effort, during which surveys were made and work was done on some sections by the government and by private interests, Canadian Pacific Railway Company was organized to take over the contract. The company was incorporated under the Dominion of Canada by special charter on Feb. 16, 1881 (continued on May 2, 1984), and received the lines already built or under construction, a cash subsidy of $25,000,000 and a land grant of 25,000,000 acres. The last spike on the main line from Montreal to Vancouver was driven at Craigellachie, B.C., on Nov. 7, 1885, five years in advance of contract date.

MacPherson Royal Commission—The first volume of the report of the MacPherson Royal Commission on Transportation was tabled in the House of Commons in April, 1961. Recommendations of the report included the following: that the railways be compensated for the movement of Western grain traffic which, under statutory rates, is hauled at a substantial loss; that the railways be compensated by way of payment from the Treasury for free transportation which they are required by law to provide; that other burdens, such as uneconomic passenger train services and light density branch lines, be eased over a transitional period through payments from the Treasury on a diminishing scale.

National Transportation Act—In February, 1967, the Canadian Parliament passed the National Transportation Act in which competition is recognized as the primary regulator of freight rates, subject to certain regulations with respect to minimum and maximum rates and continuance of fixed rates pertaining to the movement of grain from western Canada for export.

The Act provided for creation of a single federal transportation board, co-ordinating land, sea and air transportation in Canada, called the Canadian Transportation Commission, whose functions integrate and replace existing transport regulatory boards such as the Board of Transport Commissioners, etc. In addition to supervising railways, airlines, bus operators and ships, the newly-established Commission also has regulatory power over interprovincial trucking operations and commodity pipelines.

For railways, the Act provides for a general freeing of freight rates, although in certain cases, such as those relating to the movement of western grain to export terminals, rates will not be altered. To assist the Canadian railroads to adjust to the more competitive framework, the Act provides for "normal" payments by the government to all Canadian railroads in each of the years 1967 to 1974, commencing at a level of $110 million and decreasing by an amount of $14 million per annum until these subsidies are phased out. Under the Act, railways may offer unit train and multiple car rates and are permitted to abandon branch lines and discontinue non-profitable passenger service. If continuation of operations is deemed necessary by the Commission, the railways are compensated in general for 100% of losses incurred with respect to certain railway branch lines.

In 1962, Canadian Pacific Investments Ltd. was formed as an investment and holding company to consolidate and develop the company's non-transportation investments.

In October, 1967, public interest in the company's subsidiary Canadian Pacific Investments Limited, was brought about by the sale of $100,000,000 in convertible preferred shares.

In 1968, the company signed a 15-year contract with Kaiser Coal Ltd., providing for the movement of 45.7 million long tons of coal from the Crowsnest area of B.C. to the Pacific coast. Also in 1968, the company's subsidiary, Canadian Pacific Steamships, Ltd., decided to move to complete containerization of its North Atlantic cargo operations.

In 1970, the company's unit train system for moving coal from Kaiser Resource's Sparwood, B.C., mine to Roberts Bank, B.C., began operation.

By S.L.P. dated July 3, 1971, the corporate name of the company was changed to Canadian Pacific Limited from Canadian Pacific Railway Company.

In 1972, CanPac International Freight Services Limited was formed to provide services related to the movement of freight between Canada and foreign countries. Also in 1972, Incan Marine Limited was formed in partnership with Inchcape and Company Limited, London, England, to study, develop and exploit marine opportunities in conjunction with other means of transportation.

In 1973, the company's subsidiary Canadian Pacific Steamships, Ltd. entered into an agreement with Manchester Liners Limited to concentrate CP operations in southern U.K., with Manchester concentrating its operations in northern U.K.

On Jan. 1, 1975, Commandant Properties Limited was sold by the company to Canadian Pacific Investments Limited. Also in 1975, the company participated with another company in setting up Unitank Limited to study and evaluate opportunities in the field of terminal storage and transportation of bulk liquids.

On July 31, 1976, Chateau Insurance Company was sold by the company to Canadian Pacific Investments Limited.

In October, 1978, VIA Rail Canada Inc. (a Crown Corporation) took over the company's Montreal/Toronto to Vancouver passenger service and took over all other inter-city passenger services in April, 1979.

CNCP Telecommunications, a partnership with Canadian National Railways which operates telecommunication facilities in Canada, was formed in March, 1980.

On May 5, 1980 the name of Canadian Pacific Investments Ltd. was changed to Canadian Pacific Enterprises Limited.

In December, 1980, the company sold its 50% interest in Northern Alberta Railways Company to Canadian National. Also at the end of 1980, Canadian Pacific Transport Company, Limited and its subsidiary, Canadian Pacific Express Limited amalgamated to form Canadian Pacific Express & Transport Ltd.

In 1981, the company acquired remaining 50% interest in Unitank Limited, whose name was then changed to Intertank, Inc.

In fiscal 1982, the company, through Canadian Pacific Express & Transport Ltd., acquired Moffat Bros. Limited and Zot Transportation Limited. Also in fiscal 1982, the company received approval for the purchase of one-third interest in Dart Containerline Company Limited.

Late in 1983, the company wrote off its investment and withdrew from its one-third participation in the Dart Containerline service between the U.S. east coast and western Europe.

On Dec. 1, 1983, subsidiary Canadian Pacific Air Lines, Limited acquired 100% interest in CP Hotels Limited from Canadian Pacific Enterprises Limited. Subsequently, on Jan. 1, 1984, CP Air and CP Hotels Limited were amalgamated to continue as Canadian Pacific Air Lines, Limited and CP Hotels continued as a division of CP Air.

Effective Jan. 1, 1984, The Canada Line Limited, a joint venture company owned by Canadian Pacific Limited and Compagnie Maritime Belge S.A., was created to provide coordinated container service with Manchester Liners between Montreal and western Europe. Canada Line Limited was subsequently renamed Canada Maritime Limited effective Oct. 1, 1984.

On Aug. 31, 1984, Canadian Pacific Air Lines, Limited acquired all of the outstanding shares of Eastern Provincial Airways Limited and its subsidiary, Air Maritime Limited, for $20,070,000.

At the 1984 year-end, Soo Line Corporation was

formed as a holding company for all of the outstanding shares of Soo Line Railroad Company. Canadian Pacific Limited obtained a 55.74% interest in the new holding company.

On Feb. 19, 1985, Soo Line Corporation acquired the transportation operation and related assets of the Milwaukee Road adding approximately 3,100 miles of track and five states to the Soo Line system.

During 1985, divestitures included: sale of Baker Commodities, Inc. in January; sale of CIP Daxion by CIP Inc.; sale of Theresa Friedman & Sons Inc. in June; and sale of Maple Leaf Monarch Company by Maple Leaf Mills in July.

Effective Dec. 6, 1985, 69.6% owned Canadian Pacific Enterprises Ltd. was merged with the company. Under terms of the merger shareholders of CPE received 1.675 ordinary shares of the company for each common share of CPE held. This merger involved the issue of 78,942,444 ordinary shares representing a value of $1,401,228,000.

As a result of its Dec. 19, 1985, takeover offer for Nordair Inc., CP Air acquired 65% interest in Nordair.

In early 1986, the company announced agreement had been reached for Cominco to sell its 40% interest in Fording Coal Ltd. to the company for $87,000,000. Also, on April 1, 1986, Chateau Insurance was sold to Penjeron Ltd. and CP Hotels sold the Skylon Tower in Niagara Falls for $3,100,000.

OFFICERS AND DIRECTORS

Officers—F. S. Burbidge, chm.; R. W. Campbell, v-chm.; W. W. Stinson, pres. & CEO; J. P. T. Clough, v-p, fin. & acctg.; C. R. O. Munro, v-p, law; K. S. Benson, v-p, admin.; S. E. Eagles, v-p, corp.; R. K. Gamey, group v-p; J. F. Hankinson, group v-p; J. C. Anderson, v-p, personnel; D. J. Deegan, sec.; John Thomson, compt.; D. E. Sloan, treas.

Directors—P. L. Paré, L. G. Rolland, W. W. Stinson, Michel Belanger, Montreal; F. S. Burbidge, St. Lambert, Que.; A. S. Kingsmill, R. D. Wolfe, C. D. Reekie, T. M. Galt, A. R. Taylor, Toronto; W. D. Mulholland, Georgetown, Ont.; J. C. Wadds, Prescott, Ont.; S. A. Milner, Edmonton; T. G. Rust, Rt. Hon. J. L. Nichol, Vancouver; F. H. Sherman, Hamilton, Ont.; Claude Pratte, Quebec City; Allard Jiskoot, Baarn, The Netherlands; D. C. Matthews, R. W. Campbell, C. M. Leitch, Rt. Hon. Peter Lougheed, R. D. Southern, Calgary; Dr. L. I. Barber, Regina; M. J. Fielding, Sudbury, Ont.; A. A. MacNaughton, San Francisco.

MAJOR SUBSIDIARIES AND DEPARTMENTS

All subsidiaries are wholly owned unless otherwise indicated.

Rail Transportation

CP Rail—A department of the company.
Soo Line Corporation—(55.75% interest) Soo Line Building, Box 530, Minneapolis, Minn. 55440.

Non-Rail Transportation

CP Air
Canadian Pacific Air Lines, Limited—1055 Dunsmuir St., P.O. Box 49370, Vancouver, B.C. V7X 1R9.
Eastern Provincial Airways Limited
Nordair Inc.—(65% interest)—See also separate Basic Card on this company.

Canadian Pacific Hotels—A department of Canadian Pacific Air Lines, Limited.

CP Ships
Canadian Pacific Steamships, Limited
Centennial Shipping Limited
Racine Terminal (Montreal) Limited
Canadian Pacific (Bermuda) Limited

CP Trucks
Canadian Pacific Express & Transport Ltd.
CanPac International Freight Services Inc.

Oil and Gas

PanCanadian Petroleum Limited—(87.08% interest). PanCanadian Plaza, P.O. Box 2850, Calgary, Alta. T2P 2S5. See also separate Basic Card on this company.

Mines and Minerals

Cominco Ltd.—(52.63% interest). 2300, 200 Granville St., Vancouver, B.C. V6C 2R2. See also separate Basic Card on this company.
Fording Coal Limited—Wholly owned.
Processed Minerals Incorporated
Steep Rock Resources Inc.—(79.61% interest). 40 University Ave., Toronto, Ont. M5J 2G5. See also separate Basic Card on this company.

Forest Products

CIP Inc.
Great Lakes Forest Products Limited—(54.28% interest). P.O. Box 430, Thunder Bay, Ont. P7C 4W3. See also separate Basic Card on this company.
Commandent Properties, Limited

Steel and Industrial Products

The Algoma Steel Corporation, Limited—(61.18% interest). 503 Queen St. E, Sault Ste. Marie, Ont. P6A 5P2. See also separate Basic Card on this company.
AMCA International Limited—(16.15% interest held directly; 34.46% interest held by subsidiary, The Algoma Steel Corporation, Limited.) Dartmouth National Bank Building, Hanover, N.H. 03755. See also separate Basic Card on this company.

Real Estate

Marathon Realty Company Limited—1100, University Place, 123 Front St. W, Toronto, Ont. M5J 2M2

Other Businesses

Maple Leaf Mills Limited—P.O. Box 710, Stn. K, Toronto, Ont. M4P 2X5. See also separate Basic Card on this company.
CP Telecommunications—A department of the company.
Syracuse China Corporation

Financial and Miscellaneous

Canadian Pacific Securities Limited—800, University Place, 123 Front St. W, Toronto, Ont. M5J 2M2
Chateau Insurance Company—(99.98%)

INVESTMENTS

At Dec. 31, 1985, the company also had investments as follows:

	$000's
Accounted for on an equity basis:	
AMCA International Finance Corporation	$ 77,770
AMCA International Finance Limited	13,022
Aberfoyle Limited	22,959
Tilden Iron Ore Partnership	49,858
Other	97,851
Accounted for on a cost basis:	
Panarctic Oils Ltd.	42,097
The Toronto Terminals Railway Company	10,682
Portfolio investments*	7,789
Other	120,341
	$442,369

*Market value $7,290,000.

CAPITAL STOCK

As at December 31, 1985

	Author.	Outstand.
Preferred	20,381,788 shs.	Nil
4% Preference	■	
Cdn. Dollar		10,713,816 shs.
Sterling		2,561,769 shs.
Ordinary	Unlimited	297,705,933 shs.

■ An amount not exceeding one-half the aggregate amount of ordinary shares outstanding.

Preferred Shares:

General Provisions—Issuable in series at the discretion of the directors. All series shall rank on a parity

with one another and ahead of the ordinary shares and any other shares ranking junior to the preferred shares, with respect to payment of dividends and the reduction of the capital of the company.

Non-voting unless dividends in arrears for two years or more, when entitled as a class to elect three directors of the company. Preferred shareholders have the right to attend and vote at any meetings on any question directly affecting any of the rights or privileges attached to the preferred shares.

4% Preference:

Entitled to 4% per annum, noncumulative.

Canadian Dollar Preference—Entitled to non-cumulative dividends of four cents per share per annum, payable quarterly. One vote per share. Originally issued in units of $3 and carrying one vote for every $15 par value. (Following the 5-for-1 split of ordinary shares in 1971, entitled to one vote for each $3 par). No preference as to assets.

Sterling Preference—Entitled to non-cumulative dividends at the rate of 1.33⅓ p. per share per annum, payable semiannually. One vote per share. Originally issued in multiples of £1 carrying one vote for every £20 par value. (Following the 4-for-1 split of ordinary shares in 1930, entitled to one vote for each £5 par, and following 5-for-1 split of ordinary shares in 1971, entitled to one vote for every £1 par). No preference as to assets.

Ordinary—One vote per share.

CAPITAL STOCK CHANGES

(For capital stock changes prior to Dec. 31, 1978, see under preferred, ordinary and Preference Stock headings below).

At Dec. 31, 1978, capital stock outstanding comprised 2,515,311 7¼% series A preferred shares, $10 par, £864,923 ($4,209,000) of sterling preference stock (in units of £1), $11,539,000 of Canadian dollar preference stock (in units of $3) and 71,662,280 ordinary shares.

In 1979, 317,941 series A preferred shares were redeemed and in 1980, 218,427 series A preferred shares were redeemed.

In 1981, 319,355 series A preferred shares were redeemed and preference stock was reduced by £11,000 of sterling preference stock and $465,000 of Canadian dollar preference stock (representing preference stock acquired by a subsidiary).

In 1982, 236,527 and in 1983, 152,151 series A preferred shares were redeemed. Capital stock outstanding at Dec. 31, 1983 comprised 1,270,910 7¼% series A preferred shares, £853,923 ($4,156,000) of sterling preference stock, $10,714,000 of Canadian dollar preference stock and 71,662,280 ordinary shares.

On May 2, 1984, each $3 and £1 of preference stock was redesignated as one Canadian dollar preference and one sterling preference share, respectively. Also on that date, the par value was removed from the ordinary shares.

Also during 1984, 193,788 series A preferred shares were redeemed. Capital stock outstanding at Dec. 31, 1984 comprised 1,077,122 7¼% series A preferred, 853,923 sterling preference, 3,571,272 Canadian dollar preference and 71,662,280 ordinary shares.

On Mar. 28, 1985, all of the outstanding 7¼% series A preferred shares were redeemed at $10 per share plus 17.08 cents per share accrued dividends.

Effective May 17, 1985, the outstanding Canadian dollar preference, sterling preference and ordinary shares were split on a 3-for-1 basis and the number of authorized ordinary shares was increased to an unlimited number.

During 1985, 82,719,093 ordinary shares were issued in exchange for common shares of Canadian Pacific Enterprises Limited under terms of the merger (see p. 2); and 3,776,649 ordinary shares were issued for cash under the dividend reinvestment and share purchase plan.

Capital stock outstanding at Dec. 31, 1985, comprised: 2,561,789 sterling preference shares, 10,713,816 Canadian dollar preference shares, and 297,705,933 ordinary shares.

Preference Stock:

Preference stock was originally issued in multiples of £1 as follows:

Amount outstanding		
June 30, 1912	£13,704,472	$66,695,097
Issued in 1913.....	1,569,091	7,636,243
Issued in 1914.....	800,000	3,893,333
Issued in 1915.....	504,914	2,457,248
Issued in 1923.....	2,600,000	12,653,333
Issued in 1924.....	1,400,000	6,813,333
Issued in 1928.....	1,000,000	4,866,667
Issued in 1929.....	2,500,000	12,166,667
Issued in 1930.....	2,500,000	12,166,667
Issued in 1931.....	1,625,000	7,908,333
O/s at Dec. 31, 1968..	£28,203,477	$137,256,921

1967 Conversion Offer—During the period Oct. 2 to Nov. 13, 1967, holders of sterling preference stock were given the option to convert their holdings into Canadian dollar preference stock on the basis of £1 sterling being the equivalent of $3 Canadian. A total of £24,799,356 outstanding sterling preference was converted under the offer leaving £3,404,121 sterling preference and $74,398,068 Canadian dollar preference outstanding at Dec. 31, 1967. The value of the stock so converted (previously carried on the balance sheet at historical rate of $4.86⅔ Canadian per £1 sterling) was thus reduced by $46,292,131, with a corresponding credit to stock premium account. At Dec. 31, 1968, preference stock comprised £3,273,080 sterling preference and $74,791,191 Canadian dollar preference stock.

From September to November 1971, holders of Canadian dollar and sterling preference stock were offered one series A preferred share, $10 par, for each $15 or £6 of preference stock surrendered. A total of 4,599,413 series A preferred shares were issued in exchange for $63,063,060 of Canadian dollar and £2,371,254 of sterling preference stock. The excess of the carrying value of the preference stock over the par value of the preferred shares was credited to premium on stock. During 1972, 1973 and 1974, further conversions took place bringing outstanding preference stock to £865,319 ($4,214,000) of sterling preference and $11,539,000 of Canadian dollar preference stock at Dec. 31, 1974. By Dec. 31, 1977 sterling preference stock had been reduced to £865,019 ($4,210,000).

In 1978, sterling preference stock was reduced by £96 bringing preference stock outstanding at Dec. 31, 1978 to £864,923 ($4,209,000) of sterling preference and $11,539,000 of Canadian dollar preference stock.

Preferred Stock:

In 1971, the company issued 4,599,413 7¼% series A preferred shares, $10 par, in exchange for preference stock on the basis of one series A preferred share for each $15 or £6 of preference stock surrendered.

Through share purchases, the number of series A preferred shares was reduced to 4,048,793 shares at Dec. 31, 1973.

During 1974, 438,537 shares were purchased leaving 3,610,256 series A preferred shares outstanding at Dec. 31, 1974.

Following share purchases and redemptions from 1975 to 1977, there were 2,812,670 series A preferred shares.

In 1978, 297,359 series A preferred shares were redeemed bringing the number of such shares outstanding at Dec. 31, 1978 to 2,515,311 shares.

Ordinary Stock:

Authorized by act of Parliament to the extent of $500,000,000. The original capital was $25,000,000, which has been increased from time to time, as follows:

	Amount	Ratio new stock to old	Price at which offered
Issued prev. to 1902 ...	$65,000,000	....	....
Issued March, 1902	19,500,000	3 to 10	$100
Issued Oct., 1904	16,900,000	2 to 10	100
Issued April, 1906.....	20,280,000	2 to 10	100
Issued Jan., 1908	24,336,000	2 to 10	100
Issued in 1908 & 1909 .	3,984,000		
Allotted Nov., 1909	30,000,000	2 to 10	125
Allotted Jan., 1912	18,000,000	1 to 10	150
Sold during 1912, at a prem. of $2,860,822 .	2,000,000		
Allotted Jan., 1913	60,000,000	3 to 10	175
Payments on new issue, 1927.....	34,002,549	1 to 8	150
Payments on 18,710 shs. offered during 1928 ..	1,244,551		
Issued June, 1929	34,752,900	1 to 10	170
Issued to employees in 1929 and 1930	5,000,000	....	....
Issued in 1952	10,025,375		
Issued in 1953	149,550		
Issued in 1954	125,425		
Issued in 1955	1,653,975		
Issued in 1956	1,774,900		
Issued in 1957	2,927,550		
Issued in 1958	3,637,800		
Issued in 1959	3,005,575		
Issued in 1960	11,250		
O/s Dec. 31, 1983	$358,311,400		

In 1927 the directors decided to issue 400,000 shares ($40,000,000) of additional ordinary stock, of which 325,000 shares were offered for subscription to shareholders in the ratio of one new share for each eight already held at $150 per share. Price range of rights, high $4⅝, low $3¾. A further 50,000 shares were offered for subscription to officers and employees of the company at the same price. As the applications by officers and employees exceeded by 6,290 shares the amount offered, the directors decided to increase the amount of shares available for this purpose to 56,290 shares. The remaining 18,710 shares were disposed of on favorable terms.

In April, 1929, shareholders of record on May 2, 1929, were given the rights to subscribe to the purchase of 300,000 ordinary shares at $170 per share on the basis of one share for every ten shares held. 50,000 ordinary shares were also offered to the officers and employees of the company at the same time at the same price. Of the offer, 347,529 shares were subscribed. Price range of rights, high 6¾, low 4½.

In February, 1930, the directors of the company approved of splitting the $100 par ordinary stock on a 4-for-1 basis. The split became effective Oct. 2, 1930.

Voting provisions in regard to the company's preference stock were changed in 1930 so that holders receive one vote for each £5 value held instead of £20 value as before. This action was necessary due to the 4-for-1 split of ordinary stock.

Through conversion of collateral trust bonds, 401,015 ordinary shares were issued in 1952; 5,982 in 1953; 5,017 in 1954; 66,159 in 1955; 70,996 in 1956; 117,102 in 1957; 145,512 in 1958; 120,223 in 1959; 450 in 1960, increasing ordinary stock outstanding to 14,332,456 shares at Dec. 31, 1960.

On Oct. 1, 1971, authorized and issued ordinary shares were split on a 5-for-1 basis, increasing authorized stock to 100,000,000 $5 par shares. At Dec. 31, 1971, there were 71,662,280 ordinary shares outstanding.

DIVIDEND REINVESTMENT AND STOCK DIVIDEND PLANS

Under the Dividend Reinvestment Plan, in effect since 1977 and as amended Sept. 1, 1986, shareholders may make optional cash payments, on a monthly basis, of up to $40,000 per annum or equivalent in U.S. funds, for the purchase of ordinary shares from treasury. Shares are issued at market price without brokerage commissions.

The price of the shares purchased with cash dividends paid on ordinary shares will be 95% of the average of the closing prices of the ordinary shares traded on the Toronto and Montreal stock exchanges on the five tradings immediately preceding the dividend payment date.

PRICE RANGE OF STOCK
(Canadian Stock Exchanges)

Ordinary

Year	High	Low	Year	High	Low
1976	$18.88	$13.25	1981	$55.00	$36.88
1977	19.75	16.00	1982	42.00	24.88
1978	25.63	16.38	1983	50.25	35.25
1979	40.25	23.75	1984	53.63	37.13
1980	52.63	34.50	1985	*21.75	15.88

*Following 3-for-1 split in May.

Sterling Preference■

Year	High	Low	Year	High	Low
1976	$5.75	$4.50	1981	$7.00	$5.13
1977	6.50	4.75	1982	11.00	8.38
1978	6.50	5.00	1983	11.00	10.00
1979	6.13	5.25	1984‡ ...	2.50	2.05
1980	6.00	5.13	1985* ...	1.45	0.87

■Per £5 par value trading unit in 1983 and prior years; per share in 1984.

‡Following redesignation of each £1 par value as one share in May, 1984, or effective 5-for-1 split of each £5 trading unit.

*Following 3-for-1 split in May.

Canadian Dollar Preference▲

Year	High	Low	Year	High	Low
1976	$7.50	$5.88	1981	$7.38	$6.00
1977	9.38	6.50	1982	11.50	7.25
1978	9.00	7.50	1983	11.13	10.00
1979	9.25	7.38	1984‡ ...	2.80	2.00
1980	8.25	6.13	1985	*1.50	0.93

▲Per $15 par value trading unit in 1983 and prior years; per share in 1984.

‡Following redesignation of each $3 par value as one share in May, 1984, or effective 5-for-1 split of each $15 trading unit.

*Following 3-for-1 split in May.

7¼% Preferred (Old)

Year	High	Low	Year	High	Low
1976	$9.75	$8.00	1981	$9.00	$7.00
1977	10.25	8.38	1982	10.50	6.75
1978	10.75	9.75	1983	10.50	8.50
1979	10.50	9.25	1984	10.00	8.75
1980	9.50	7.75	1985▲ ...	10.00	9.38

▲To Mar. 29, when delisted.

DIVIDENDS

Canadian Dollar Preference—Entitled to four cents per share per annum (adjusted for 3-for-1 split in May, 1985), non-cumulative, payable semiannually at the end of January and July.

Dividends were paid semiannually at the annual rate of 12 cents per share on July 30, 1984 (first since the reorganization of each $3 par value as one Canadian dollar preference share in May, 1984) and Jan. 28, 1985.

Following the 3-for-1 stock split on May 17, 1985, a rate of four cents per share per annum was established with the semiannual dividend of two cents per share paid July 29, 1985.

For dividends paid prior to the May, 1984 reorganization, see Canadian Dollar Preference (Old), below.

Sterling Preference—Entitled to 1.33⅓p per share per annum, (adjusted for 3-for-1 split in May, 1985) non-cumulative, payable semiannually at the end of January and July.

Dividends were paid semiannually at the annual rate of 4p per share on July 30, 1984 (first since reorganization of each £1 par value as one sterling preference share in May, 1984) and Jan. 28, 1985.

Following the 3-for-1 split on May 17, 1985, a rate of 1.33⅓p per share per annum was established with the semiannual dividend of 0.66⅔p per share paid July 29, 1985.

For dividends paid prior to the May, 1984 reorganization, see Sterling Preference (Old), below.

Ordinary—Present rate is 48 cents per share per annum, established with the quarterly dividend of 12 cents per share paid July 29, 1985 (first following 3-for-1 split in May, 1985). Previously a rate of $1.40 per pre-split share per annum was paid quarterly from Oct. 28, 1982 to Apr. 29, 1985, inclusive.

Dividends paid on ordinary stock from incorporation were as follows: 1885-88, 3%; 1889, 4%; 1890-93, 5%; 1894, 2½%; 1895, 1½%; 1896, 2%; 1897-98, 4%; 1899-1902, 5%; 1903-1905, 6%; 1906, 6½%; 1907-1909, 7%; 1910, 8½%; 1911 to April 1, 1931, 10%; June 30, 1931, to Apr. 1, 1932, 5%. Following the distribution on Apr. 1, 1932, no dividends were paid on the ordinary shares until Mar. 31, 1944; subsequently $1.25 per share was paid for fiscal years 1944-49 inclusive; and $1.50 per share was paid for fiscal years 1950-63 inclusive. Subsequently dividends were paid as follows: $2.50 in 1964; $2.65 in 1965; $2.90 in 1966 and 1967; $3.00 in 1968; $3.20 in 1969; and $3.25 in 1970. In 1971, prior to the 5-for-1 stock split a dividend of $1.60 per share was paid in July, and 34 cents per new share was paid in January, 1972, attributable to the previous year.

Following the 5-for-1 stock split in October, 1971, dividends were paid as follows: 32 cents per share on July 28, 1972; 38 cents per share paid Jan. 29, 1973; 36 cents per share paid July 30, 1973; 41 cents paid Jan. 28 and July 29, 1974; 45 cents per share paid Jan.28, 1975; 41 cents paid July 28, 1975; 43½ cents per share paid Jan. 28, 1976; 39½ cents per share paid July 28, 1976; 46½ cents per share paid Jan. 28 and July 28, 1977; 48½ cents per share paid Jan. 30, 1978; 50 cents per share paid July 28, 1978; 60 cents per share paid Jan. 29, 1979; 80 cents per share paid June 30, 1979; 90 cents per share paid Jan. 28 and July 28, 1980; and 95 cents per share paid Jan. 28 and July 28, 1981. Quarterly dividends of 47½ cents per share were paid on Apr. 28 and July 28, 1982 and a rate of $1.40 per share per annum was paid quarterly from Oct. 28, 1982 to Apr. 29, 1985, inclusive, following which the stock was split on a 3-for-1 basis.

An extra dividend of 25 cents per share was paid in fiscal 1956.

7¼% Preferred, Series A (Old)—Was entitled to cumulative preferential dividends of 72½ cents per share per annum, payable semiannually on January and July 28. Initial 32 cents per share paid Jan. 28, 1972; 36¼ cents paid July 28, 1972 and regularly quarterly to Jan. 28, 1985. All redeemed Mar. 29, 1985 at $10 per share plus accrued dividends of 27.08 cents per share.

Canadian Dollar Preference (Old)—4% non-cumulative per annum, payable at the end of January and July. Dividends on the Canadian Dollar Preference Stock are paid at the same rate as on the Sterling Preference Stock. Thus, a dividend totaling 4% in any year equals 12 cents in Canadian funds on $3 par value of the Canadian Dollar Preference Stock; or 60 cents per trading unit of $15 par value.

Initial 2% per share paid Feb. 1, 1968; paid regularly semiannually until the stock was reorganized on continuance, May 2, 1984.

Sterling Preference (Old)—4% non-cumulative per annum, payable at the end of January and July. (Note—Dividends on the preference stock are paid in Sterling. Thus, at an exchange rate of $3 to one pound, the 4% dividend yielded 4p per unit of £1; or 20p per trading unit of £5).

Paid regularly at 4% to and including Oct. 1, 1932; none thereafter until 1% paid Apr. 1, 1937, out of 1936 earnings. 2% paid Apr. 1, 1938, out of 1937 earnings. No payments made with respect to 1938 or 1939 earnings. 2% paid Oct. 1, 1940, and 2% paid Feb. 1, 1941, both out of 1940 earnings. Paid regularly semiannually at 4% per annum until stock reorganized on continuance, May 2, 1984, with the Feb. 1 dividend in each case being the final payment for the previous year.

CONSOLIDATED DEBENTURE STOCK

Perpetual 4% consolidated debenture stock outstanding at Dec. 31 for the last two years has been as follows:

	1985	1984
	$000's	
Consol. debenture stock:		
Total issued	971,013	992,084
Less: Pledged as collateral	786,032	834,279
	184,981	157,805

4% Consolidated Debenture Stock:

Perpetual and non-callable.

Interest payable Jan. 1 and July 1.

Authorized by Act of Parliament passed in 1889 and subsequent acts. In May, 1932, an act was assented to which permited the company to issue from time to time, in addition to the amounts authorized under previous acts, an amount which together with the secured obligations of the company at such time outstanding shall not exceed one half of the company's property investment as shown in the last balance sheet, being first authorized to do so by the votes of at least two-thirds of the shareholders present or represented at the annual meeting, or at a special general meeting duly called for the purpose.

Secured by a statutory charge on the assets and undertakings of the company, within the terms and meanings of the acts. The act, which authorized the company to issue consolidated debenture stock as a first charge on the whole of the undertaking, specifically exempted therefrom any lands received by the company by way of subsidy.

Total amount issued as at Dec. 31, 1985, was $971,013,000, of which $786,032,000 pledged as collateral to bonds, leaving $184,981,000 outstanding.

Sterling Issue—Interest payable Jan. 1 and July 1 by warrant from the company's London office, where stock is transferable in multiples of £1. Listed on London Stock Exchange. Issued and outstanding at Dec. 31, 1985, £46,757,000.

U.S. Dollar Issue—Interest payable Jan. 1 and July 1 in United States funds at agency of Bank of Montreal, New York. Issuable in coupon form in denominations of $100, $500 and $1,000 and multiples of $1,000, interchangeable with fully registered certificates. Listed on New York Stock Exchange. Issued at Dec. 31, 1985, US$483,640,000, of which amount US$418,640,000 was pledged as collateral leaving a balance of US$65,000,000 outstanding.

Canadian Currency Issue—Permission was given by stockholders at the annual meeting held May 2, 1934, to issue consolidated debenture stock in Canadian currency. Issued at Dec. 31, 1985, $199,936,000, all of which was pledged as collateral.

Voting Rights—Has no voting rights unless and until the company defaults in the payment of a portion of an installment of interest due thereon, constituting not less than 10% of such installment of interest, nor unless or until such default has continued for the space of ninety days. If such default occurs all holders of debenture stock shall ipso facto have the right to vote at all meetings of shareholders in the proportion of one vote for every $100 of debenture stock held and shall have all the rights and powers of ordinary shareholders. From the time that the debenture stockholders acquire such rights holders of the common stock shall cease to vote or act as shareholders of the company.

If at the end of any calendar year which elapses after such default, the net earnings are sufficient to satisfy all interest in arrears, including the interest matured for and during the year, or, if not sufficient, if the shareholders pay the deficiency, then, in either of such cases and thereafter, the right of the holders of debenture stock to vote shall cease, and the right of ordinary shareholders to vote and act as shareholders shall revive.

Offered—In December, 1921 by The Guaranty Co., The National City Co., Brown Bros. & Co., and Bankers Trust Co.

LONG-TERM DEBT

Long-term debt outstanding at Dec. 31 1985, was as follows:

Collateral Trust Bonds:	
9¾%, due 1989	59,486,000
8½% due 1989	4,547,000
8⅞% due 1992	36,403,000
10.35% due 1994	60,850,000
11¼% due 1995	47,215,000
14⅝% due 1992	105,000,000
	313,501,000
Equipment Trust Certificates:	
Ser. U, 8½% due 1989	12,405,000
Ser. V, 10⅛% due 1990	19,600,000
Ser. W, 8⅝% due 1992	22,863,000
Ser. X, 14⅜% due 1991	105,000,000
Ser. 8½% due 1993	3,842,000
Ser. 1, 10.5% due 1988	70,000,000
	233,710,000
12½% Retract. Debentures	105,000,000
10.375% Debentures	75,000,000
10.75% Debentures	140,000,000
Bank loans, etc.	47,032,000
Subsids. l.-t. debt	5,984,252,000
	6,683,495,000
Less: Debt due in 1 yr.	468,140,000
Total long-term debt	$6,215,355,000

Annual maturities and sinking fund requirements for the next five years are as follows: $468,140,000 in 1986; $678,844,000 in 1987; $829,188,000 in 1988; $685,319,000 in 1989; and $834,693,000 in 1990.

Collateral Trust Bonds:

At Dec. 31, 1985, the company had outstanding $313,501,000 in collateral trust bonds. Perpetual 4% consolidated debenture stock totaling $786,032,500 was pledged as collateral for these bonds. Collateral trust bonds outstanding as follows:

8½% Twenty-Year Bonds—Dated Nov. 1, 1969; due Nov. 1, 1989; was prepayable on Nov. 1, 1974.

Bearing an annual interest rate of 8¾% to and including Oct. 31, 1974 and 8½% thereafter.

Principal and half-yearly interest (May and Nov. 1) and redemption premium, if any, payable in Canadian funds at any branch in Canada of the banks designated in the bonds.

Authorized and issued $25,000,000; outstanding at Dec. 31, 1985, $4,547,000.

Denominations—Coupon bonds in denominations of $1,000, $5,000 and $25,000 registrable as to principal only and in fully registered form in denominations of $1,000 or any integral multiple thereof. Several denominations of the bonds will be interchangeable.

Trustee—Montreal Trust Co.

Redemption—The bonds will not be redeemable prior to Nov. 2, 1974. Thereafter the bonds will be redeemable on at least 30 and not more than 60 days' notice, in whole or in part in principal amounts of not less than $1,000,000, at the following percentages of principal amount, on or before Oct. 31 in each year:

1975 .. 105.75	1980 .. 103.30	1985 .. 101.15
1976 .. 105.25	1981 .. 102.85	1986 .. 100.75
1977 .. 104.75	1982 .. 102.40	1987 .. 100.35
1978 .. 104.25	1983 .. 101.95	
1979 .. 103.75	1984 .. 101.55	

and thereafter at par to maturity plus accrued interest in each case. The bonds are not redeemable prior to Nov. 1, 1984, as part of or in anticipation of any refunding operation having an interest rate or cost of less than 8½% per annum.

The company may purchase bonds in the market or by tender or private contract at not more than 108.75% of the principal amount thereof on or prior to Nov. 1, 1974 and thereafter at the current redemption rate plus accrued interest and costs of purchase in each case.

Sinking Fund—Sufficient to retire on May 1 in each of the years 1975 to 1989, inclusive, 3% of the principal amount of bonds not prepaid on Nov. 1, 1974. The company may retire an additional 3% principal amount of non-prepaid bonds in each of the above years by way of a non-cumulative optional sinking fund.

Security—Direct obligation of the company secured by the pledge with the trustee of perpetual 4% consolidated debenture stock of the company in a principal amount in Canadian funds equal to 200% of the principal amount of bonds oustanding.

Purpose of Issue—Net proceeds added to the general funds of the company.

Offered—In October, 1969, at 99.50 and accrued interest by a group headed by Dominion Securities Inc.

8⅞% Twenty-One-Year Bonds—Dated Feb. 1, 1971; due Feb. 1, 1992.

Principal and half-yearly interest (Feb. and Aug. 1) and redemption premium, if any, payable in Canadian funds at any branch in Canada of the banks designated in the bonds.

Authorized and issued $50,000,000; outstanding at Dec. 31, 1985, $36,403,000.

Denominations—Coupon bonds in the denominations of $1,000, $5,000, and $25,000 registrable as to principal only and in fully registered form in denominations of $1,000 or any integral multiple thereof. Coupon bonds and fully registered bonds are interchangeable.

Trustee—National Trust Co.

Redemption—At the company's option on not less than 30 and not more than 60 days' notice in whole or in part, in the principal amount of not less than $1,000,000, at the following percentages of principal amount, on or before Jan. 31 in each year:

1972 . 108.875	1979 . 105.375	1985 . 102.375
1973 . 108.375	1980 . 104.875	1986 . 101.875
1974 . 107.875	1981 . 104.375	1987 . 101.500
1975 . 107.375	1982 . 103.875	1988 . 101.125
1976 . 106.875	1983 . 103.375	1989 . 100.750
1977 . 106.375	1984 . 102.875	1990 . 100.375
1978 . 105.875		

and thereafter at par to maturity, plus accrued interest in each case. The company may not redeem the bonds prior to Feb. 1, 1986, for refunding purposes at an interest cost of less than 8⅞% per annum.

The company will have the right to purchase the bonds at prices not exceeding the redemption rate plus accrued interest and costs of purchase. Such bonds purchased may be applied at their principal amount in satisfaction of sinking fund obligations.

Sinking Fund—Sufficient to retire $1,500,000 principal amount on Aug. 1 in each of the years 1977 to 1991, inclusive. In addition, the company may make noncumulative optional sinking fund payments sufficient to retire up to $1,500,000 principal amount on each of the mandatory sinking fund payment dates.

Security—A direct obligation of the company secured by the pledge with the trustee of the perpetual 4% consolidated debenture stock of the company in a principal amount in Canadian currency equal to 200% of the principal amount of the bonds outstanding.

Purpose of Issue—Net proceeds added to the general funds of the company for the payment of capital expenditures.

Offered—In December, 1970, at 100 and accrued interest by a group headed by Wood Gundy Inc. and Dominion Securities Inc.

10.35% Collateral Trust Bonds—Dated Dec. 1, 1974; due Dec. 1, 1994.

Principal and half-yearly interest (June and Dec. 1) and redemption premium, if any, payable in U.S. funds at the office or agency of the company in the Borough of Manhattan.

Authorized and issued US$75,000,000; outstanding at Dec. 31, 1985, $60,850,000.

Denominations—Available only in fully registered form in denominations of U.S. $1,000 or any multiple thereof.

Trustee—The Royal Trust Co.

Redemption—The bonds will not be redeemable, for other than sinking fund purposes, prior to Dec. 1, 1984. Thereafter the bonds are redeemable, for other than sinking fund purposes, in whole or in part at any time on 30 days' notice at the following percentages of princi-

pal amount, during the 12 month periods ending on Nov. 30:

1985 .. 104.90	1988 .. 103.27	1991 .. 101.63
1986 .. 104.36	1989 .. 102.72	1992 .. 101.09
1987 .. 103.81	1990 .. 102.18	1993 .. 100.54

and thereafter at par to maturity, plus accrued interest in each case.

Sinking Fund—Sufficient to retire U.S. $4,500,000 principal amount on Dec. 1, 1979 and on each Dec. 1 thereafter to Dec. 1, 1993, inclusive. In addition, the company has the noncumulative option to make additional sinking fund payments up to the mandatory amount payable in each year.

Security—Direct obligation of the company secured by the pledge with the trustee of perpetual 4% consolidated debenture stock of the company in a principal amount of U.S. funds equal to 250% of the principal amount of bonds outstanding.

Purpose of Issue—Net proceeds added to the general funds of the company.

Offered—In November, 1974 in the United States at 100 and accrued interest by a group headed by Salomon Brothers and A. E. Ames & Co. Inc.

11¼% Collateral Trust Bonds—Dated Nov. 18, 1975; due Nov. 15, 1995.

Principal and half-yearly interest (May and Nov. 15) and redemption premium, if any, payable in Canadian funds at any branch in Canada of the bank designated by the bonds; provided however, that interest may be payable, at the option of the company, to the holders of fully registered bonds, by cheques mailed to the addresses of such holders.

Authorized, and issued $60,000,000; outstanding at Dec. 31, 1985, $47,215,000.

Denominations—Available in coupon form in denominations of $1,000, $5,000 and $25,000 registrable as to principal only and in fully registered form in denominations of $1,000 or any multiple thereof.

Trustee—The Royal Trust Co.

Redemption—The bonds will not be redeemable, for other than sinking fund purposes, prior to Nov. 15, 1990. Thereafter, the bonds are redeemable, for other than sinking fund purposes, in whole or in part on not more than 90 nor less than 30 days' notice at the following percentages of principal amount, during the 12 month period beginning Nov. 15:

1976 .. 111.25	1982 .. 107.15	1988 .. 103.25
1977 .. 110.40	1983 .. 106.50	1989 .. 102.60
1978 .. 109.75	1984 .. 105.85	1990 .. 102.95
1979 .. 109.10	1985 .. 105.20	1991 .. 101.30
1980 .. 108.45	1986 .. 104.55	1992 .. 100.65
1981 .. 107.80	1987 .. 103.90	

and thereafter at par to maturity, plus accrued interest in each case.

Sinking Fund—Sufficient to retire $35,700,000 aggregate principal amount in equal annual amounts of $2,550,000 commencing Nov. 15, 1981. In addition, the company has the noncumulative option to make additional sinking fund payments up to an aggregate of $12,600,000 in annual amounts not to exceed $900,000.

Security—Direct obligation of the company secured by the pledge with the trustee of perpetual 4% consolidated debenture stock of the company in a principal amount of Canadian funds equal to 250% of the principal amount of bonds outstanding.

Purpose of Issue—Net proceeds added to the general funds of the company.

Offered—In November, 1975, in Canada at 100 and accrued interest by a group headed by Wood Gundy Limited, and Dominion Securities Inc.

9.75% Collateral Trust Bonds:

Dated May 15, 1979; due May 15, 1989.

Principal, premium, if any, and interest (payable annually commencing May 15, 1980) payable in U.S. funds at any of the designated paying agents. In the event that the Government of Canada or any province or political subdivision thereof levies taxes, duties or other assessments, the company will pay such additional amounts as will result in the payment to the bondholders of the amounts which would otherwise have been payable to them.

Authorized, and issued, US$50,000,000; outstanding at Dec. 31, 1985, Cdn$59,486,000.

Denomination—Available in bearer form only in the denomination of US$1,000 with interest coupons attached.

Fiscal Agent—Orion Bank Ltd.

Redemption—The company will redeem the bonds at par together with accrued interest by instalments of US$1,250,000 on May 15 in each of the years 1980 to 1988, inclusive, and by a final instalment of US$38,750,000 on May 15, 1979.

The company may on giving not less than 45 days' nor more than 90 days' notice, after the expiration of five years from the date of issue, redeem the bonds in whole or, subject to a minimum of US$1,000,000, in part at the following rates if redeemed in the 12 months beginning May 15:

1984 .. 101.00	1986 .. 100.50	1987 .. 100.25
1985 .. 100.75		

and thereafter at par; in each case plus accrued interest.

Should the company at any time be required to pay additional taxes, etc., the company may at any time thereafter, on giving not less than 45 days' nor more than 90 days' notice, redeem all (but not less than all) of the bonds outstanding at the principal amount plus accrued interest.

The company may at any time purchase the bonds in the open market or by tender or private contract at a price (excluding accrued interest and costs) not exceeding 110% of the mean of the nominal quotations of the bonds on The Stock Exchange of the United Kingdom and the Republic of Ireland on the trading day last preceding the date of purchase, but not otherwise. Not later than March 15 in any year any bonds so purchased in the 12-month period ending on that day may be surrendered to the fiscal agent for credit at par against the annual redemption instalment.

Security—Direct and unconditional obligation of the company ranking pari passu with all other collateral trust bonds of the company, and secured by the company's 4% Consolidated Debenture Stock equal to 200% of the principal amount of the bonds outstanding.

Purpose of Issue—Net proceeds used for general corporate purposes.

Offered—In May, 1979, in the international market, at 100 plus accrued interest from May 15, 1979, by a group headed by Orion Bank Ltd., and Dominion Securities Inc.

14⅝% Collateral Trust Bonds:

Dated June 1, 1982; due June 1, 1992.

Interest payable annually on June 1.

Authorized, issued and outstanding at Dec. 31, 1985, US$75,000,000 (Cdn$105,000,000).

Redemption—Not redeemable prior to June 1, 1988; thereafter redeemable at 101 to May 31, 1989; at 100.50 to May 31, 1990; thereafter at par; in each case plus accrued interest.

Offered—In 1982 in the international market by a group headed by Orion Royal Bank Limited.

Equipment Trust Certificates:

At Dec. 31, 1985, the company had outstanding $233,710,000 in 8¼% to 14⅜% Equipment Trust Certificates, due to 1993, as follows:

8½% Series U—Dated Jan. 1, 1974; due Feb. 1, 1989.

Principal and semiannual interest (Feb. and Aug. 1), payable in U.S. funds.

Authorized and issued US$25,000,000; outstanding at Dec. 31, 1985, Cdn$12,405,000.

Redemption—Not redeemable prior to maturity.

Sinking Fund—Sufficient to retire US$833,333 principal amount semiannually on Feb. 1 and Aug. 1, commencing Aug. 1, 1974, to maturity.

10⅛% Series V—Dated May 15, 1975; due July 2, 1990.

Principal and semiannual interest (Jan. and July 2) payable in U.S. funds.

Authorized and issued US$42,000,000; outstanding at Dec. 31, 1985, $19,600,000.

Redemption—Not redeemable prior to maturity.

Sinking Fund—Sufficient to retire US$2,800,000 principal amount on July 2 in each of the years 1976 to 1989, inclusive.

8⅝% Series W—Dated Jan. 1, 1977; due Jan. 15, 1992. Authorized and issued, US$35,000,000; outstanding at Dec. 31, 1985, Cdn$22,863,000. Sold privately.

14⅜% Series X—Dated June 15, 1981; due June 15, 1991.

Principal and half-yearly interest (June and Dec. 15) is payable in U.S. funds at the office of the Trustee in Baltimore, Maryland. Interest payment to holders not resident in Canada are not subject to Canadian withholding taxes.

Authorized, issued and outstanding US$75,000,000 (Cdn$105,000,000 at Dec. 31, 1985).

Denominations—Issued in fully registered form only, in denominations of US$1,000 or any integral multiple thereof.

Trustee—Mercantile-Safe Deposit and Trust Co.

Redemption—Not redeemable prior to June 15, 1988. On or after that date, the company may redeem all or part of the certificates on not less than 30 and not more than 60 days' notice at par plus accrued interest to the date of redemption.

Security—The trust agreement dated June 15, 1981 provides for the sale, assignment and transfer to the Trustee of approximately 1,127 freight cars, 58 diesel locomotives, and other railroad equipment. The agreement requires that the aggregate cost or fair value, whichever is less, of all equipment subjected to the Trust will be at least US$93,750,000.

Purpose of Issue—Net proceeds applied to reimburse the company for not more than 80% of the purchase price of equipment to be subject to trust; balance of such purchase price supplied from treasury of the company.

Offered—On June 17, 1981 at 99.60 to yield 14⅜% per annum by a group headed by Salomon Brothers Offering made in the U.S. only.

Series 8½%—Dated June 21, 1978; due Dec. 20, 1993.

Principal and semiannual interest (June and Dec. 20) payable in U.S. funds.

Authorized and issued, US$4,117,618; outstanding at Dec. 31, 1985, Cdn$3,842,000.

Redemption—Not redeemable prior to maturity.

Sinking Fund—sufficient to retire US$132,826 semiannually on June and Dec. 20, commencing Dec. 20, 1978, to maturity.

10½% Series 1—Dated 1983; due Mar. 15, 1988.

Principal and semiannual interest (Mar. and Sept. 15) payable in U.S. funds.

Authorized and issued US$50,000,000; outstanding at Dec. 31, 1985, Cdn$70,000,000.

Trustee—Bank of Montreal Trust Co.

Redemption—Not redeemable prior to maturity.

Offered—In 1983, by a group headed by Salomon Brothers and Dominion Securities Inc.

12½% Retractable Debentures—Dated Oct. 15, 1984; due Oct. 15, 1999. Interest payable annually (Oct. 15) in U.S. funds at fixed rate of 12½% until Oct. 15, 1990 and thereafter at rate to be set by company for periods of one or more years.

Authorized and issued US$75,000,000; outstanding at Dec. 31, 1985, Cdn.$105,000,000.

Trustee—The Royal Trust Co.

Redemption—Redeemable at the company's option on or after Oct. 15, 1990, at par. If withholding taxes are imposed, redeemable at any time in whole only at par.

Company may purchase debentures in the open market, by tender or by private contract at prices not exceeding 120% of the middle market quotations of the debentures on the London Stock Exchange.

Offered—In the international market in 1984 by an international syndicate headed by Orion Royal Bank.

10¾% Debentures—Dated Oct. 1, 1985; due Oct. 1, 1990. Interest payable annually, (Oct. 15).

Authorized, issued and outstanding at Dec. 31, 1985, $75,000,000.

Trustee—Canada Trust Co.

Redemption—Not redeemable prior to maturity. If withholding taxes are imposed, redeemable at any time in whole only at par.

Offered—By Wood Gundy and CIBC Ltd.

10.75% Debentures—Dated June 15, 1985, due June 15, 1993. Interest payable annually (June 15) in U.S. funds.

Authorized, issued and outstanding at Dec. 31, 1985, US$100,000,000 (Cdn.$140,000,000).

Trustee—Royal Trust Co.

Redemption—Not redeemable prior to June 15, 1990; thereafter at 101.25 to June 14, 1991; at 100.50 to June 14, 1992 and thereafter at par.

Offered—By an international syndicate headed by Orion Royal Bank.

PREVIOUS LONG-TERM DEBT

8¼% Equipment Trust Certificates, Series T—Dated June 15, 1969; due June 15, 1984.

Authorized and issued US$30,000,000; outstanding at Dec. 31, 1983, Cdn$2,500,000. All retired at maturity.

Trustee—Irving Trust Co.

Offered—In June, 1969, at 100 and accrued interest by a group headed by A. E. Ames & Co. Inc. and Salomon Brothers & Hutzler. Offering made in the United States only.

INTERIM REPORT

For the three months ended March 31, 1986, total revenues increased marginally but net income dropped to $8,350,000 or three cents per ordinary share from $57,515,000 or 27 cents per share for the same year earlier quarter.

The company termed the results of consolidated operations disappointing. The combination of unsatisfactory performance from CP Air and CP Ships, the collapse of oil prices and weak markets for metals, forest products, and steel led to the decline in first quarter 1986 earnings.

Non-consolidated net income, comprised mainly of earnings from CP Rail, CP Telecommunications, and dividends from subsidiaries amounted to $53,500,000 or $0.18 per ordinary share compared with $36,300,000 or $0.17 per share a year earlier.

The company is currently reviewing its assets to determine if any write-downs are necessary in view of earning capacity. Growth is expected to continue to be constrained by the impact of low oil prices although the company expects some improvement in earnings due to strengthening transportation activity and improvements in commodity prices.

INTERIM EARNINGS

Year	Total Revenue▲	Net Inc. Oper.	Earns. Per Sh.‡	Total Revenue▲	Net Inc. Oper.	Earns. Per Sh.‡	Total Revenue▲	Net Inc. Oper.	Earns. Per Sh.‡
	3 months			6 months			9 months		
	$000's		—$—	$000's		—$—	$000's		—$—
1978 ..	n.a.	64,728	0.30	n.a.	152,845	0.71	n.a.	233,546	1.08
1979 ..	n.a.	96,841	0.45	n.a.	226,294	1.05	n.a.	368,048	1.70
1980 ..	n.a.	135,937	0.63	n.a.	269,182	1.25	n.a.	423,972	1.96
1981 ..	2,801,462	133,420	0.62	5,899,098	253,015	1.17	8,902,662	391,201	1.81
1982 ..	3,088,724	46,858	0.22	6,280,189	110,585	0.51	9,247,166	153,461	0.71
1983 ..	2,842,986	32,181	0.15	6,081,925	60,863	0.28	9,303,367	101,834	0.47
1984 ..	3,435,318	33,360	0.15	7,183,778	130,913	0.61	10,882,138	260,668	1.21
1985 ..	3,568,837	57,515	0.27	7,570,497	141,941	0.66	11,244,301	195,841	0.91
1986 ..	3,599,915	8,350	0.03						

▲As reported by company, exclusive of intersegment transfers.
‡Adjusted throughout for 3-for-1 split, May 17, 1985.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years Ended December 31

	1985	*1984	*1983
	$000's		
Sources (Uses) of Cash:			
Operating Activities:			
Net income	246,720	376,903	143,592
Deprec., depl. & amort.	996,977	875,117	757,008
Deferred income taxes	15,611	91,010	(115,501)
Minority interest	79,820	179,089	(35,972)
Other	3,174	4,805	81,589
Changes in current accounts	8,551	(351,240)	350,610
	1,350,853	1,175,684	1,181,326
Financing Activities:			
Issue long-term debt	1,270,108	603,926	701,994
Repay long-term debt	(789,152)	(852,116)	(692,453)
Issue shs. subsids.	129,046	228,697	229,141
Redeem. pref. shs. by subsid.	(102,810)	....	....
Purch. pref. shs.	(10,769)	(1,926)	(1,479)
Issue ordinary shs.	1,469,500	....	....
	1,965,923	(21,419)	237,203
Investing Activities:			
Purch. min. int.	(1,407,739)	....	....
Subsid. purch. of railway oper.	(248,515)	....	....
Purch. of partnership assets	(48,773)	....	....
Purch. of subsid. assets	(7,423)	(23,039)	....
Sale subsids.	74,252	....	....
Add investments	(38,536)	(85,432)	(37,017)
Reduce investments	14,207	67,805	72,906
Addition to fixed assets	(1,896,334)	(1,343,097)	(1,173,146)
Disposal of fixed assets	155,765	172,752	101,686
	(3,403,096)	(1,211,011)	(1,035,571)
Dividends:			
To shldrs.	(102,717)	(101,857)	(101,629)
To min. shldrs. in subsids.	(133,384)	(143,477)	(133,093)
	(236,101)	(245,334)	(234,722)
Increase (decrease) in cash	(322,421)	(302,080)	148,236
Cash at beginning of year	(322,342)	(20,262)	(168,498)
Cash at year end	(644,763)	(322,342)	(20,262)

*As shown in 1985 Annual Report.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	1985	1984	1983	1982	1981	1980	1979
				$000's			
Assets							
Current Assets:							
Cash and temp. invests.	327,086	483,687	613,310	516,916	967,012	1,359,005	1,214,634
Accounts receivable	2,463,788	2,073,843	1,685,172	1,575,518	1,841,127	1,453,732	1,264,260
Rail materials, etc.	288,169	236,367	214,981	248,179	231,969	238,897	182,648
Other inventories:							
Raw materials	581,452	603,442	591,835	701,940	724,682	482,848	
Work in progress	271,373	266,041	283,134	312,980	297,099	270,161	922,528
Finished goods	603,129	589,002	594,086	594,789	490,743	360,296	
Stores & materials	303,711	294,241	277,128	289,904	287,694	198,053	
	4,838,708	4,546,623	4,259,646	4,240,226	4,840,326	4,362,992	3,584,070
Insurance fund□	4,000	4,000	4,000	4,000	4,000	4,000	3,645
Investments:							
Portfolio‡	7,789	16,816	23,161	32,068	67,337	69,201	152,502
Other	434,580	390,393	440,059	488,842	467,912	310,341	305,655
	442,369	407,209	463,220	520,910	535,249	379,542	458,157
Properties:							
CP Rail	†	4,448,451	4,051,672	3,754,002	3,515,271	3,251,424	3,060,469
CP Trucks	†	205,116	181,118	171,977	145,623	138,665	133,002
CP Telecomm.	†	328,540	307,657	300,077	271,140	234,427	194,405
CP Air	†	1,558,644	1,452,571	1,144,999	960,377	733,825	600,291
CP Ships	†	873,205	762,142	758,956	689,285	598,625	534,338
Soo Line Corp.	†	935,015	726,690	501,075	485,883	457,282	410,131
Miscellaneous	†	36,403	34,847	28,733	27,686	30,967	20,765
CP Enterprises	†	11,425,931	10,665,252	10,385,523	9,073,930	6,691,050	5,458,179
Rail Transportation	6,663,474	....	....	....	....	....	....
Non-Rail Transportation	2,912,879	....	....	....	....	....	....
Oil & Gas	3,244,605	....	....	....	....	....	....
Mines & Minerals	2,679,108	....	....	....	....	....	....
Forest Products	2,560,512	....	....	....	....	....	....
Steel & Industrial Prods.	2,239,117	....	....	....	....	....	....
Real Estate	1,670,111	....	....	....	....	....	....
Other Businesses	643,802	....	....	....	....	....	....
Financial & Misc.	38,457	....	....	....	....	....	....
Less: Accum. deprec.	7,214,323	6,564,149	5,752,360	5,044,555	4,534,650	4,133,379	3,706,428
	15,437,742	13,247,156	12,429,589	12,000,787	10,634,545	8,002,886	6,705,152
Other assets & def. chgs.	723,107	591,134	445,494	507,111	316,065	289,081	251,369
	21,445,926	18,796,122	17,601,949	17,273,034	16,330,185	13,038,501	11,002,393
□ Approx. mkt. val.	4,330	4,215	4,180	3,872	3,420	3,451	3,207
‡Market value	7,290	13,270	26,326	31,249	103,913	108,282	169,223

†Following the 1985 merger, the company changed its presentation of properties to recognize the significance of its non-transportation businesses.

Accounting Change—In 1985, the company changed its method of accounting for investment tax credits. This change reduced net income in 1985 by $28,000,000 or 13 cents per ordinary share. In 1984, the company changed its method of accounting for foreign currency translation. This change reduced net income for 1984 by $39,000,000 or 14 cents per ordinary share.

Remuneration of officers and directors has been as follows in recent years: $6,799,956 in 1985; $4,786,238 in 1984; $4,444,181 in 1982; $3,185,181 in 1981; $3,002,190 in 1980; $3,135,681 in 1979; and $2,089,669 in 1978.

Commitments—At Dec. 31, 1985, commitments for capital expenditures amounted to $434,000,000 and minimum payments under operating leases were estimated at $709,000,000 in the aggregate, with annual payments in each of the next five years as follows: $122,000,000 in 1986; $110,000,000 in 1987; $90,000,000 in 1988; $65,000,000 in 1989; and $49,000,000 in 1990.

At Dec. 31, 1985, unused commitments for long-term financing amounted to $1,402,000,000, at interest rates varying from bank prime or money market rates, with commitment fees on $1,199,000,000 ranging from ⅛% to ¼%.

Unused lines of credit for short-term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $1,340,000,000, on which interest rates vary with bank prime or money market rates.

Working capital ($000's)	460,649	969,244	787,452	1,008,989	1,393,285	1,403,962	1,050,625
Ratio	1.11—1	1.27—1	1.23—1	1.31—1	1.40—1	1.47—1	1.41—1

Foreign Currency Translation—Effective Jan. 1, 1984, the company changed its method of accounting for foreign currency translation. Foreign currency assets and liabilities are translated at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. Unrealized gains or losses on long term monetary assets and liabilities are amortized to income over the remaining term of these items. Accounts of foreign subsidiaries are translated using the year-end rate for assets and liabilities and the averages rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included in shareholders' equity. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the perpetual 4% consolidated debentures. (For impact on earnings see Accounting Change above.

Investment Tax Credits—Effective Jan. 1, 1985, the company changed its method of accounting for investment tax credits. Whereas previously such credits were accounted for as a reduction of income tax expense, they are now amortized to income on the same basis as the assets to which they relate. (For impact on earnings see Accounting Change above.)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	1985	1984	1983	1982	1981	1980	1979
	$000's						
Liabilities							
Current:							
Bank loans	386,452	414,750	307,646	346,175	390,906	93,465	72,404
Accts. pay. & accruals	2,810,360	2,353,160	2,114,658	1,951,671	2,100,135	1,866,795	1,514,543
Notes & interest pay.	585,397	391,279	325,926	339,239	401,433	338,722	414,691
Taxes payable	85,471	85,434	258,576	147,927	181,475	259,230	248,446
Dividends payable	42,239	41,486	41,593	42,848	87,269	88,077	84,561
L.-t. debt due 1 yr.	468,140	291,270	423,795	403,377	285,823	312,741	198,800
	4,378,059	3,577,379	3,472,194	3,231,237	3,447,041	2,959,030	2,533,445
Deferred liabilities	246,480	176,928	335,670	276,310	166,086	130,830	83,578
Deferred income credits	309,030	266,559					
Insurance reserve	4,000	4,000	4,000	4,000	4,000	4,000	3,645
Perpetual deb. stk.	971,013	992,084	995,274	1,054,724	850,186	865,791	888,522
Less: Issued as coll.	786,032	834,279	702,725	762,175	557,637	573,242	595,973
	184,981	157,805	292,549	292,549	292,549	292,549	292,549
Long-term debt■:							
Debentures	320,000	99,000	....	....	....	....	....
Bonds, oblig., etc.	594,243	630,682	625,727	916,139	728,565	594,261	593,692
Subsidiary debt	5,769,252	4,879,310	4,910,718	4,622,552	3,919,072	2,403,176	2,029,939
Less: Amt. due 1 yr.	468,140	291,270	423,795	403,377	285,823	312,741	198,800
	6,215,355	5,317,722	5,112,650	5,135,314	4,361,814	2,684,696	2,424,831
Minority interest	2,046,607	2,997,161	2,674,355	2,586,591	2,477,342	2,251,899	1,754,260
Deferred income taxes	1,899,731	1,775,625	1,657,960	1,756,052	1,651,984	1,192,311	922,137
Shareholders' Equity							
Capital stock:							
7¼% Preferred	....	10,771	12,709	14,231	16,596	19,790	21,974
4% Preference*	14,870	14,870	14,870	14,870	15,230	15,748	15,748
Ordinary	760,552	358,311	358,311	358,311	358,311	358,311	358,311
Premium on stock	1,182,569	115,308	115,296	115,253	114,717	113,843	113,626
Other paid-in surplus	162,272	161,390	224,247	228,668	229,849	170,056	150,239
Foreign exchange adjust.	302,777	259,319	....	....	....	....	....
Retained earnings	3,738,643	3,602,974	3,327,138	3,259,648	3,194,666	2,845,438	2,328,050
	21,445,926	18,796,122	17,601,949	17,273,034	16,330,185	13,038,501	11,002,393

*Preference stock denominated in pounds sterling is valued at the historical rate of $4.86⅔ per pound.

●Inventories are primarily valued at the lower of cost and net realizable value.

Pensions—At Dec. 31, 1985, there were unfunded liabilities of $407,100,000, being funded by a series of equal annual payments to 2004, and $221,100,000 being funded by equal annual payments to 2027.

EQUITIES

	1985	1984	1983	1982	1981	1980	1979
Net worth▲ ($000's)	6,161,683	4,522,943	4,052,571	3,990,981	3,929,369	3,523,186	2,987,948
Cons. deb. stk., per $1,000	$7,998	$6,005	$5,393	$5,125	$5,945	$5,395	$4,691
Coll. tr. bonds, per $1,000	21,675	14,454	13,683	12,079	15,261	13,499	11,237
Debentures, per $1,000	20,255	46,686	....	....	....	....	....
Preferred stock	....	4,199.10	3,188.72	2,804.50	2,367.68	1,780.33	1,359.77
Preference stock*	575.11	339.88	304.30	299.55	286.95	256.93	209.85
Ordinary stock●	20.65	20.92	18.72	18.43	18.13	16.22	13.72

▲Available for capital stock; based on shareholders' equity. Preferred stock and preference stock deducted at book value before calculating equity per ordinary share. Collateral trust bonds, perpetual consolidated debenture stock and debentures taken in at par for calculation of their equity.

●Adjusted throughout for 3-for-1 split in May, 1985.

*In 1984, per combined sterling and Canadian dollar share; in 1983 and prior years, shown on a combined sterling and Canadian dollar unit basis (each £1 stated value represented one sterling unit and each $3 represented one Canadian dollar unit); adjusted throughout for 3-for-1 split, May, 1985.

Shares Outstanding:							
Ordinary (000's)	297,705,933	71,662	71,662	71,662	71,662	71,662	71,662
Preferred	....	1,077,122	1,270,910	1,423,061	1,659,588	1,978,943	2,197,390
Sterling preference▲	2,561,769	853,923	....	....	....	....	....
Cdn. dollar pfce.▲	10,713,816	3,571,272	....	....	....	....	....
4% Preference●	....	....	4,425,256	4,425,256	4,545,256	4,711,256	4,711,256

▲Following the redesignation of each £1 and each $3 of 4% preference stock as one sterling preference and one Canadian dollar preference share, respectively, in May, 1984; and following 3-for-1 split, May, 1985.

●Combined sterling and Canadian dollar units.

CONSOLIDATED STATMENT OF INCOME AND RETAINED EARNINGS
Years Ended December 31

	1985	*1984	*1983
		$000's	
Rail Transportation:			
Revenues	3,367,215	2,989,478	2,803,805
Less: Expenses▲	3,249,358	2,780,775	2,598,900
Minority Interest	(6,899)	10,257	9,277
Net Income	124,756	198,446	195,628
Non-Rail Transportation:			
Revenues	2,145,730	1,947,738	1,472,966
Less: Expenses▲	2,154,657	1,947,478	1,554,176
Minority interest	16,331	7,036	3,281
Net income	d25,258	d6,776	d84,491
Oil & Gas:			
Revenues	1,137,105	1,055,358	884,387
Less: Expenses▲	838,442	755,329	643,296
Minority interests	110,084	117,234	93,785
Net Income	188,579	182,795	147,306
Mines & Minerals:			
Revenues	1,811,225	1,949,845	1,653,226
Less: Expenses▲	1,928,160	1,905,603	1,689,231
Minority Interests	(79,634)	29,614	(19,708)
Net Income	d37,301	14,628	d16,297
Forest Products:			
Revenues	2,161,925	2,199,331	1,832,177
Less: Expenses	2,180,137	2,201,398	1,947,735
Minority interests	(1,396)	4,831	(46,227)
Net Income	d16,816	d6,898	d69,331
Steel & Industrial Products:			
Revenues	3,288,739	3,017,627	2,454,605
Less: Expenses▲	3,267,518	3,063,530	2,619,839
Minority interests	22,640	(18,586)	(99,682)
Net income	d1,419	d27,317	d65,552
Real Estate:			
Revenues	279,553	277,570	274,083
Less: Expenses▲	250,801	249,794	247,872
Minority interests	8,624	8,659	8,066
Net Income	20,128	19,117	18,145
Other Business:			
Revenues	1,143,302	1,475,686	1,668,090
Less: Expenses▲	1,115,204	1,429,235	1,625,496
Minority interests	7,328	13,418	12,580
Net income	20,770	33,033	30,014
Financial & Miscellaneous:			
Revenues	208,190	231,905	191,027
Less: Expenses▲	232,167	255,404	200,201
Minority interest	2,742	6,626	2,656
Net income	d26,719	d30,125	d11,830
Net income	246,720	376,903	143,592
Add: Previous retained earnings	3,602,974	3,327,138	3,284,369
Gain incr. equity subsid.	1,744	613	996
Less: Preferred divds.	181	834	967
Preference dividends	527	519	525
Ordinary dividends	112,087	100,327	100,327
Retained earnings	3,738,643	3,602,974	3,327,138

▲Including income taxes. *As shown in the 1985 Annual Report reflecting the amalgamation with Canadian Pacific Enterprises Limited in December, 1985.

Earnings Per Share▲:							
Pref. & Pfce.: Times earned	t348.47	t278.57	t96.24	t114.53	t273.41	t287.55	t231.08
Ordinary: Earned	$1.11	$1.75	$0.66	$0.87	$2.25	$2.70	$2.35

▲Adjusted throughout for 3-for-1 split of ordinary shares in May, 1985.

Dividends Paid or Declared:							
7¼% Preferred	†$0.3625	$0.72½	$0.72½	$0.72½	$0.72½	$0.72½	$0.72½
Cdn. dollar pfce.▸	0.06	0.12	4%	4%	4%	4%	4%
Sterling pfce.▸	2p	4p					
Ordinary	$0.70	$1.40	$1.40	$1.65	$1.90	$1.85	$1.70
Cdn. dollar pfce.▲	0.02	....	....	....	....	....	....
Sterling pfce.▲	0.6667p	....	....	....	....	....	....
Ordinary▲	0.24	....	....	....	....	....	....

†Redeemed Mar. 29, 1985 at $10.2708 including accrued dividends.

▲Following 3-for-1 split in May, 1985.

▸Prior to reclassification of each $3 and £1 of 4% preference stock as one Canadian dollar and one Sterling preference share, respectively, in May, 1984, paid 4% per annum or 60 cents per $15 trading unit and 20p per £5 trading unit (equivalent to 12 cents per $3 unit and 4p per £1 unit).

HISTORICAL SUMMARY

(As originally stated in company's annual reports for the respective years)

Fiscal Year:	Total Assets	Properties*	Working Capital	Shldrs.' Equity	Gross Revenue▲	Net Inc. Opers.	Earns. per ord. sh.	Ord. Price Range High	Ord. Price Range Low
	$000's						$	$	$
1923 ..	1,080,948	828,124	42,949	727,443	207,228	35,399	12.01	160.00	139.75
1924 ..	1,113,757	849,175	65,040	731,271	192,473	33,128	11.01	156.50	142.75
1925 ..	1,113,873	864,734	51,771	734,945	194,713	37,074	12.53	152.38	136.50
1926 ..	1,137,909	882,326	64,190	738,196	209,082	41,325	14.12	170.25	146.50
1927 ..	1,169,298	921,235	62,750	769,093	213,022	36,013	12.08	219.00	165.00
1928 ..	1,225,075	971,005	73,818	804,147	241,717	49,063	14.98	253.00	195.50
1929 ..	1,339,387	1,072,022	100,186	866,783	214,963	42,228	11.15	265.00	187.50
1930 ..	1,371,970	1,138,802	68,341	867,857	200,944	39,132	●2.49	●58.00	●35.25
1931 ..	1,380,889	1,171,725	51,030	850,433	153,290	14,584	0.63	54.25	12.25
1932 ..	1,375,366	1,181,793	39,890	826,685	128,474	1,008	....	22.88	8.25
1933 ..	1,399,925	1,169,110	51,352	807,289	120,492	2,696	....	21.63	9.00
1934 ..	1,373,099	1,163,589	37,990	790,046	132,207	6,470	0.07	18.50	10.50
1935 ..	1,348,526	1,169,880	37,615	762,424	137,724	2,832	....	13.75	9.63
1936 ..	1,362,697	1,173,264	40,455	756,114	148,761	6,029	0.04	15.88	10.75
1937 ..	1,382,062	1,189,883	40,354	753,188	161,867	9,462	0.30	17.50	7.00
1938 ..	1,398,980	1,213,986	36,824	747,569	154,651	1,262	d0.32	8.25	5.00
1939 ..	1,384,853	1,192,289	48,742	749,617	163,276	9,782	0.32	9.13	3.00
1940 ..	1,438,384	1,221,364	50,279	750,767	187,624	20,145	1.13	8.25	4.00
1941 ..	1,470,541	1,226,879	57,909	775,674	240,051	34,361	2.19	7.13	4.50
1942 ..	1,523,495	1,254,741	59,583	770,889	277,569	40,354	2.63	8.63	5.00
1943 ..	1,557,280	1,175,794	76,480	800,590	318,021	42,983	2.83	12.88	8.00
1944 ..	1,583,078	1,191,019	88,485	819,835	331,242	34,700	2.21	14.00	10.13
1945 ..	1,605,896	1,211,570	82,855	831,260	331,216	31,614	1.98	22.13	11.63
1946 ..	1,622,446	1,243,029	90,963	856,562	315,276	25,135	1.54	24.63	12.50
1947 ..	1,648,454	1,275,063	96,896	846,562	343,375	31,894	2.04	15.88	11.50
1948 ..	1,709,010	1,324,513	97,716	766,569	380,115	27,394	1.70	21.75	12.63
1949 ..	1,713,565	1,381,246	89,283	779,033	386,889	29,725	1.93	18.00	11.88
1950 ..	1,780,936	1,424,197	89,556	799,414	401,813	47,867	3.32	24.25	16.25
1951 ..	1,860,038	1,487,839	103,859	835,896	458,255	43,307	2.98	39.50	23.50
1952 ..	1,917,506	1,532,183	116,926	867,228	480,461	39,079	2.61	40.00	30.00
1953 ..	1,962,796	1,610,002	90,594	887,602	487,373	31,450	2.05	33.13	20.63
1954 ..	2,054,534	1,694,214	109,131	904,179	440,478	29,826	1.94	32.00	20.75
1955 ..	2,134,445	1,761,669	117,491	938,040	471,493	44,032	2.95	35.25	28.00
1956 ..	2,516,979	2,131,967	114,081	1,055,080	535,297	55,618	3.77	36.63	29.25
1957 ..	2,552,769	2,229,262	63,941	1,093,200	511,007	46,786	3.11	34.75	21.63
1958 ..	2,654,571	2,278,666	82,198	1,113,438	480,820	32,903	2.10	30.38	20.88
1959 ..	2,715,942	2,349,480	89,960	1,128,422	490,484	31,289	1.97	31.75	23.38
1960 ..	2,741,962	2,360,364	98,628	1,136,897	469,508	28,971	1.81	26.50	20.25
1961 ..	2,785,375	2,377,024	106,566	1,151,706	477,207	32,461	2.04	26.75	21.38
1962 ..	2,841,421	2,391,694	114,646	1,167,168	473,629	32,358	2.02	27.13	20.88
1963 ..	2,917,714	2,403,766	72,958	1,211,696	498,600	40,126	2.56	37.38	24.75
1964‡ .	1,988,369	1,358,514	40,593	1,295,852	526,935	44,070	2.83	61.63	35.38
1965 ..	2,023,809	1,366,696	24,669	1,319,202	535,616	41,476	2.65	74.00	57.38
1966 ..	2,122,527	1,379,163	d7,908	1,349,708	571,867	48,306	3.13	68.63	51.25
1967 ..	2,143,857	1,406,080	1,242	1,372,331	574,470	34,766	2.19	73.38	55.00
1968 ..	2,155,463	1,423,256	d14,987	1,356,777	582,785	39,781	2.54	80.63	48.38
1969 ..	2,199,615	1,378,218	26,476	1,374,821	599,215	31,407	5.11	91.25	65.00
1970 ..	2,262,557	1,397,839	1,638	1,380,604	634,170	28,738	4.35	72.75	49.75
1971 ..	2,356,244	1,401,476	9,361	1,395,179	690,417	38,579	●0.87	●14.38	●11.13
1972 ..	2,449,669	1,429,133	d48,049	1,406,732	734,994	44,696	0.93	16.75	13.88
1973§ .	4,358,325	3,003,335	d40,243	1,766,971	2,129,169	119,876	1.62	19.25	13.88
1974 ..	5,434,527	3,774,790	400	1,851,076	3,114,673	181,276	2.48	17.75	10.50
1975 ..	6,235,832	4,230,471	116,583	2,001,384	3,655,473	174,863	2.40	17.13	12.63
1976 ..	6,820,507	4,662,960	62,005	2,123,223	4,047,225	190,424	2.62	18.88	13.25
1977 ..	7,357,419	4,870,042	264,934	2,301,615	4,899,048	239,862	3.31	19.75	16.00
1978 ..	8,935,365	5,501,029	698,696	2,577,783	6,724,540	340,870	4.72	25.63	16.38
1979 ..	11,002,393	6,705,152	1,050,625	2,987,948	8,177,779	508,142	7.08	40.25	23.75
1980 ..	13,038,501	8,002,886	1,403,962	3,523,186	9,984,546	583,157	8.11	52.63	34.50
1981 ..	16,330,185	10,634,545	1,393,285	3,929,369	12,336,266	485,579	6.75	55.00	36.88
1982 ..	17,273,034	12,000,787	1,008,989	3,990,981	12,301,895	188,294	2.60	42.00	24.88
1983 ..	17,601,949	12,429,589	787,452	4,052,571	12,759,297	143,592	1.98	53.25	35.25
1984 ..	18,796,122	13,247,156	969,244	4,522,943	14,635,095	376,903	5.24	53.63	37.13
1985 ..	21,445,926	15,437,742	460,649	6,161,683	15,040,286	246,720	●1.11	●21.75	●15.88

‡Commencing in 1964, total assets include fixed assets after depreciation; in 1963 and prior years fixed assets shown at cost, with depreciation reserve included on liabilities side of balance sheet.

●Following 4-for-1 split, October, 1930, 5-for-1 split, October, 1971 and 3-for-1 split, May, 1985.

▲As reported by company exclusive of intersegment transfer in 1976 and subsequent years. In prior years, includes miscellaneous net income. §Accounts consolidated commencing in 1973.

*Before depreciation in 1963 and prior years; net of depreciation in 1964 and subsequently.

HISTORICAL SUMMARY■
CANADIAN PACIFIC ENTERPRISES LIMITED
(As originally stated in company's annual reports for the respective years)

Fiscal Year	Total Assets	Shldrs.' Equity	Long-Term Debt - $000's	Gross Oper. Rev.	Net Inc. Oper.	Earns. per Com. Sh. $	Price Range High $	Price Range Low $
1965	485,614	445,259	....	68,153	41,925	0.84		
1966	546,606	482,750	....	83,354	42,009	0.84		
1967	737,450	614,465	....	105,39,877	0.78			
1968	791,613	629,284	26,186	126,198	41,902	0.74		
1969	993,502	649,198	55,446	148,733	41,781	0.74		
1970	1,040,517	659,724	129,162	168,947	37,792	0.66		
1971	1,070,697	667,165	155,065	164,687	32,735	0.56		
1972	1,141,178	683,003	217,542	184,205	42,321	0.75		
1973▲	2,012,227	728,754	595,931	917,661	71,586	1.33	●16.75	●15.00
1974	2,907,739	813,459	827,737	1,579,408	130,637	2.29	18.00	11.38
1975	3,510,563	917,956	1,099,073	1,964,924	141,975	2.41	17.13	12.38
1976	4,084,323	1,017,144	1,314,851	2,149,678	140,126	2.36	22.75	14.75
1977	4,409,311	1,188,591	1,314,088	2,696,944	204,682	3.41	19.88	16.50
1978	5,675,694	1,414,282	1,664,684	4,247,373	273,950	4.51	26.00	17.00
1979	7,009,867	1,906,808	1,744,856	5,297,895	420,329	6.71	38.25	23.25
1980	8,496,146	2,498,562	2,027,113	6,659,250	491,257	*3.63	*33.00	*17.88
1981	11,241,120	2,760,662	3,456,949	8,558,759	404,600	2.87	28.00	17.25
1982	12,017,478	2,984,282	4,137,928	8,494,663	150,144	1.05	19.38	12.88
1983	11,933,895	2,965,827	4,147,494	8,652,239	62,866	0.41	25.88	17.50
1984	12,357,397	3,278,558	3,983,039	9,959,316	307,126	1.96	25.50	18.63

●Listed Dec. 18. *Following 2-for-1 stock split in May, 1980.
▲Included for the first time, full consolidation of all subsidiary companies.
■ Merged with parent, Canadian Pacific Limited, Dec. 6, 1985. Common shares delisted Dec. 13, 1985.

Canadian Pacific Air Lines, Limited

Executive Office—1055 Dunsmuir St., P.O. Box 49370, Vancouver, B.C. V7X 1R9

Telephone—(604) 270-5211.

CONSOLIDATED CAPITALIZATION AS AT DECEMBER 31, 1985

	Outstanding		%
Long-term debt		$651,005,000	65
Preference stock	2,115,000 shs.	165,000,000	17
Common stock	44,000,000 shs.	218,520,000	18
Deficit		d42,304,000	

COMPANY

The company operates a domestic and international airline providing scheduled passenger and cargo flights and charter services through its airline division; owns and operates 21 major hotels in Canada, West Germany and Israel through its hotels division; and operates a regional airline in Atlantic Canada through wholly owned subsidiary, Eastern Provincial Airways Limited. The company also owns 65% interest in Nordair Inc., a Montreal-based regional airline.

Through its airline catering and restaurant division, the company provides airline catering services at five international airports in Canada.

Incorporation—Dominion charter Dec. 7, 1936; continuance 1978; amalgamation Jan. 1, 1984.

Employees—At Dec, 31, 1985, the company had 15,178 employees.

NORDAIR ACQUISITION

On Nov. 20, 1985, the company acquired 1,070,846 common shares (43.8%) of Nordair Inc. and prior to Dec. 31, 1985, under an offer dated Dec. 19, 1985, for the remaining shares, a further 201,455 shares (8.2%) bringing the company's holding to 52% at Dec. 31, 1985. The price paid per share was $16.25 cash together with three warrants each of which, subject to certain restrictions, entitled the holder to purchase one common share of the company, should the company make a public share offering prior to Dec. 31, 1988.

Subsequent to Dec. 31, 1985, the company purchased an additional 326,489 common shares (13.3%) under an extension of the Dec. 19, 1985 offer increasing the company's holding in Nordair Inc. to 65.3%. The December offer has been extended several times; most recently to June 16, 1986.

REVENUE AND EARNINGS

Operating revenue and net income by industry segment was as follows in 1985:

	Revenue		Net Income	
	$000's	%	$000's	%
Airlines	1,119,174	80	d26,624	(199)
Hotels	276,159	20	17,714	99
	1,395,333	100	d8,910	100

Operating revenue and operating income (before interest expense, gain on disposal of properties, exchange losses, other non-operating expenses and income taxes) by geographic segment was as follows in 1985:

	Revenue		Oper. Income	
	$000's	%	$000's	%
Domestic	799,804	57	47,426	76
International	595,529	43	15,182	24
	1,395,333	100	62,608	100

OPERATIONS

The company is a wholly owned subsidiary of Canadian Pacific Limited with diversified operations in domestic and international air transportation, hotel services and airline catering and restaurant services.

Airline Division

The airline division, Canadian Pacific Air Lines, is one of Canada's international flag carriers engaged in the commercial transportation of passengers, cargo and mail. Scheduled services are provided between 46 points in 13 countries on five continents. The airline also provides aircraft and engine overhaul and maintenance services, technical and pilot training and ground handling services to other airlines and customers.

With the acquisition of Eastern Provincial Airlines in 1984, the company added Atlantic Canada to its already established western Canadian operations. The acquisition of Nordair Inc. in late 1985, strengthened the company's operations in central Canada, specifically in Quebec and Ontario.

1985 Operations—In 1985, the company averaged a passenger load factor of 68.9% with a yield per passenger mile of 13.05 cents compared with 1984 results of 69.7% and 11.98 cents, respectively. For 1985, the company carried 221,941 cargo ton miles compared with 224,234 in 1984. Breakdown of operating revenues in 1985 was: 43% domestic passengers; 38% international passengers; 11% cargo and mail; 5% other; and 3% charter. Net loss was $23,503,000 on revenues of $1,119,174,000 compared with net income of $6,360,000 on revenue of $964,483,000 in 1984.

During 1985, the company acquired control of Nordair Inc. Also, internationally, the New Zealand service was re-introduced, and non-stop flights from Vancouver to Tokyo were introduced as well as increased flights to Hong Kong. In April, 1986, the company introduced non-stop flights, Vancouver to Shanghai.

Also in 1985, the company returned to using its full name, Canadian Pacific Air Lines, and introduced a redesigned logo and new colors.

Hotel Division

At Dec. 31, 1985, the hotel division Canadian Pacific Hotels owned 17 and managed four hotels in Canada, Germany and Israel.

CP Hotels—The hotels and their locations are as follows (an asterisk indicates a managed hotel): Banff Springs in Banff, Alta.; Chateau Airport and The Palliser in Calgary; Chateau Lacombe* in Edmonton; Chateau Lake Louise in Lake Louise, Alta.; Chateau Halifax in Halifax; The Algonquin*, St. Andrews, N.B.; Le Château De L'Aéroport, Mirabel, Que.; Le Château Montebello, Montebello, Que.; Le Château Frontenac in Quebec City; Le Château Champlain in Montreal; Le Baron, Trois-Rivières, Que.; the Red Oak Inns in Peterborough, Thunder Bay and Windsor*, Ont.; the Royal York in Toronto; and The Empress in Victoria. Internationally, the company operates the Bremen, Frankfurt and Hamburg Plazas in West Germany and the Tiberias Plaza* in Israel.

In early 1986, the company assumed management of Lake Okanagan Resort in Kelowna, B.C. and in June, 1987, will manage The Lodge at Kananaskis in Kananaskis County, Alta.

1985 Operations—During 1985, the company had 68.1% occupancy at an average room rate of $68.57 compared with 65.4% occupancy and a $65.50 room rate in 1984. Net income was $14,472,000 on revenues of $249,616,000 compared with $7,011,000 and $249,616,000 in 1984.

Airline Catering and Restaurant Division

Airline catering services are provided under the trade name "Chateau Flight Kitchens" at the following five international airports: Calgary I.A.; Lester B. Pear-

son I.A., Toronto; Montreal (Dorval) I.A., Montreal (Mirabel) I.A.; and Vancouver I.A.

1985 Operations—During 1985, catering services were provided to more than 20 major domestic and international airlines. A total of 7,673 in-flight meals were sold, up from 7,108 in 1984. Net income totaled $3,242,000 on revenues of $57,792,000 compared with $3,846,000 and $51,828,000, respectively, for 1984.

CAPITAL EXPENDITURES

Additions to property in recent years have been as follows:

1976	$16,126,000	1981	$241,553,000
1977	5,070,000	1982	230,419,000
1978	20,705,000	1983	57,570,000
1979	193,222,000	1984	62,586,000
1980	153,098,000	1985	190,685,000

In 1985, the company began a fleet standardization program involving the sale of the airline division's Boeing 747's and their replacement with DC-10-30's. Eventually, the fleet will be reduced to only two aircraft types, the Boeing 737 and the McDonnell Douglas DC-10. In January, 1986, orders were cancelled for five new Boeing 737-300's, reducing future capital commitments by over $205,000,000. However, two Boeing 737-300 aircraft will be delivered in 1986, at an estimated cost of US$53,500,000 of which US$16,200,000 had been expensed to Dec. 31, 1985.

HISTORY

The company was incorporated under the laws of Canada by Letters Patent dated Dec. 7, 1936 (continued under the Canada Business Corporations Act through Certificate of Continuance in 1978) under the name United Air Services Limited. The company's name was changed to Canadian Pacific Air Lines Limited on Jan. 31, 1942.

In 1959, the company was given the right to operate the first Canadian trans-continental service in competition with Trans-Canada Air Lines, which had previously held a monopoly on such services. This transcontinental service was inaugurated on May 4, 1959, with one flight per day in each direction between Vancouver, Winnipeg, Toronto and Montreal.

In November, 1965, a new service operating between eastern Canada and Amsterdam, continuing to Rome, was initiated.

On Oct. 30, 1966 a non-stop service between Toronto and Honolulu was introduced.

A Vancouver-San Francisco service was instituted during 1966.

In September, 1968, the company began service between eastern Canada and Greece which was discontinued in 1980. Flights from Vancouver to Sydney, Australia, were also introduced during the 1968 year and the company agreed to relinquish the Okanagan, Cariboo and Sandspit services with the British Columbia district in accordance with government policy. The latter services were discontinued during 1969.

Effective Dec. 18, 1980, wholly owned subsidiary, Elan Holidays Inc., was dissolved.

On Dec. 1, 1983, the company acquired all outstanding shares of Canadian Pacific Hotels Limited from Canadian Pacific Enterprises Limited for $125,000,000 (net investment of $113,687,000 after payment of dividends to former owner) which was satisfied by the issuance of preference shares, series B, of CP Air.

On Jan. 1, 1984, Canadian Pacific Hotels Limited was amalgamated with the company.

On Aug. 31, 1984, the company acquired all of the outstanding shares of Eastern Provincial Airways Limited and its wholly-owned subsidiary Air Maritime Limited for $20,070,000.

On Nov. 20, 1985, the company acquired 43.8% interest in Nordair Inc., subsequently increasing this interest to 52% at Dec. 31, 1985 and to 63.5% by Feb. 28, 1986. Purchase price was $16.25 per share together with three warrants to purchase one common share of Canadian Pacific Air Lines, Limited, under certain conditions, for each common share of Nordair.

In December 1985, the company's contract to manage the Jerusalem Plaza in Israel was not renewed. Also the Skylon Tower in Niagara Falls was sold.

In 1985, a non-stop service, Vancouver to Tokyo, was introduced and the New Zealand service was reinstated. In 1986, non-stop flights, Vancouver to Shanghai, commenced.

During early 1986, the company disposed of its Red Oak Inn operations in Thunder Bay, Peterborough and Windsor, Ont.

OFFICERS AND DIRECTORS

Officers—D. J. Carty, pres. & CEO; J. W. H. Crawford, sr, v-p, fin. & acctg.; P. W. Nelson, v-p, info. systems; D. R. Murphy, treas. & sec.; S. O. Fattedad, compt.

Directors—F. S. Burbidge, St. Lambert, Que.; J. P. W. Ostiguy, W. W. Stinson, J. P. T. Clough, S. J. Kauser, Montreal; I. A. Gray, P. J. G. Bentley, D. J. Carty, Vancouver; A. G. Cardy, A. S. Wakim, Toronto; S. A. Milner, Edmonton; R. K. Gamey, Calgary; Allard Jiskoot, Amsterdam, The Netherlands; B. E. A. Yeo, Regina, Sask.

PRINCIPAL SUBSIDIARIES

Nordair Inc.—65.3% owned. Operates regional airline from its Montreal base.

Eastern Provincial Airways Limited—Wholly owned. Operates regional airline in Atlantic Canada along with its wholly owned subsidiary, **Air Maritime Limited.**

Transpacific Tours Limited

Canadian Pacific Hotels (Nederland) B.V.

CAPITAL STOCK

(As at Dec. 31, 1985)

	Author.	Outstand.
Preference	Unlimited	
Series A		2,000,000 sh.
Series B		●115,000 sh.
Common	Unlimited	▾44,000,000 sh.

▾All owned by Canadian Pacific Limited.

●All owned by Canadian Pacific Enterprises Limited.

Preference, Series A—Entitled to cumulative preferential dividends of ⅞% above one-half of the average prime rate per quarter. Redeemable at the company's option at $25 per share. commencing in 1988, retractable at the holders' option at $25 per share. All privately held.

11% Preference, Series B—Entitled to non-cumulative preferential dividends of $11 per share per annum. Redeemable at the company's option. Issued to Canadian Pacific Enterprises Limited in December, 1983 in exchange for all outstanding common shares of Canadian Pacific Hotels Limited.

Common—One vote per share. All held by parent company.

Warrants—At Dec. 31, 1985, 3,816,903 common share warrants were outstanding, each of which entitled the holder to purchase one common share of Canadian Pacific Air Lines, Limited at $7.00 during the six month period beginning 120 days following the date on which the company makes a public offering of its shares, subject to such distribution being made prior to Dec. 31, 1988.

CAPITAL STOCK CHANGES

At June 30, 1973, prior to a proposed public offering, the company had authorized capital consisting of 2,000,000 5% cumulative redeemable preference shares, $5 par, and 4,000,000 ordinary shares, without par value, all of which were issued and outstanding. All of the ordinary shares were beneficially owned by Canadian Pacific Limited.

On Sept. 15, 1973, the 2,000,000 outstanding 5% preference shares were redeemed at approximately $5.05 per share, including accrued dividends.

On Oct. 9, 1973, the 2,000,000 authorized 5% preference shares were cancelled and authorized share capital was increased from 4,000,000 shares to 15,000,000 ordinary shares.

In 1978, authorized capital was increased by the creation of 2,000,000 cumulative redeemable retractable floating rate preference shares, series A, $25 par.

On July 5, 1978, 1,200,000 of these shares were issued at $25 per share.

During 1979, the remaining 800,000 authorized and unissued series A preference shares were issued at $25 per share. Also during 1979, the ordinary shares were redesignated as common, the authorized number of preference and common shares became unlimited and all references to par value were removed.

During 1981, the company issued 4,000,000 common shares to Canadian Pacific Limited at $5 per share.

In 1982, the company issued a further 4,000,000 common shares to Canadian Pacific Limited at $5 per share.

In 1983, 115,000 newly-created 11% non-cumulative redeemable preference shares, series B, valued at $115,000,000, were issued to Canadian Pacific Enterprises Limited on the acquisition of Canadian Pacific Hotels Limited.

Also during 1983, 2,000,000 common shares were sold to Canadian Pacific Limited for $8,500,000 cash and 30,000 common shares were issued to Canadian Pacific Limited as part of a recapitalization program.

Capital stock outstanding at Dec. 31, 1983 comprised 2,000,000 retractable series A preference, 115,000 series B preference and 44,000,000 common shares.

DIVIDENDS

Preference Series A—Privately held. Entitled to cumulative preferential dividends payable at a floating rate. A total of $3,458,000 was paid in 1984; $3,281,000 was paid in 1983; $4,522,000 was paid in 1982.

11% Preference, Series B—Entitled to $11 per share per annum, non-cumulative. None paid to date. Privately held.

Ordinary—None paid since 1975. Dividends totaling $1,080,000 paid in 1975; $2,160,000 paid in 1974; $1,798,000 paid in 1973; $1,650,000 paid in 1972; $933,000 paid in 1970 and 1971; $946,000 paid in 1969; none paid previously.

Preference (old)—Was entitled to 25 cents per share per annum, cumulative; annual dividend requirements of $352,000 paid in 1973 (redeemed Sept. 15, 1973); $500,000 paid in each of the years 1970-72; $487,000 paid in 1969; dividends totaling $1,584,375 paid in 1968, encompassing the period from Oct. 1, 1965 to Dec. 31, 1968; and dividends totaling $4,078,125 were paid in 1967, representing dividends accrued from Jan. 1, 1957 to Sept. 30, 1965.

LONG-TERM DEBT

As at Dec. 31, 1985, long-term debt outstanding totaled $715,914,000 including $71,931,000 due within one year and before deducting $64,909,000 deferred exchange gains and losses.

Repayments of long-term debt in each of the next five years are as follows: $77,650,000 in 1986; $88,706,000 in 1987; $86,550,000 in 1988; $84,387,000 in 1989; and $77,923,000 in 1990.

Debt comprised the following:

8⅝% 1st Mortgage S.F. Bonds, Series A—(Originally issued by Canadian Pacific Hotels Limited.) Dated 1972; due Apr. 15, 1992. Interest payable semiannually Apr. 15 and Oct. 15.

Authorized and issued, $20,000,000; outstanding at Dec. 31, 1985, $15,632,000.

Redemption—Redeemable at the company's option at the following percentages of principal amount on or before Apr. 15 in each year:

1973 . 108.375	1979 . 105.400	1985 . 102.400
1974 . 107.900	1980 . 104.900	1986 . 101.900
1975 . 107.400	1981 . 104.400	1987 . 101.400
1976 . 106.900	1982 . 103.900	1988 . 100.900
1977 . 106.400	1983 . 103.400	1989 . 100.400
1978 . 105.900	1984 . 102.900	

and thereafter at par to maturity.

Sinking Fund—Sufficient to retire $500,000 principal amount on Apr. 15 in each of the years 1978 to 1991, inclusive. Company may also make optional sinking fund payments of up to $500,000 on each of the same dates.

Trustee—Canada Trust Co.

Offered—In 1972 by Dominion Securities Pitfield Limited.

11⅜% 1st Mortgage S.F. Bonds, Series B—(Originally issued by Canadian Pacific Hotels Limited.) Dated 1975; due May 15, 1995.

Authorized and issued, $30,000,000; outstanding at Dec. 31, 1985, $22,680,000.

Redemption—Redeemable at the company's option at the following percentages of principal amount on or before May 15 in each year:

1976 . 111.375	1982 . 107.450	1988 . 103.600
1977 . 110.700	1983 . 106.800	1989 . 103.000
1978 . 110.050	1984 . 106.150	1990 . 102.400
1979 . 109.400	1985 . 105.500	1991 . 101.800
1980 . 108.750	1986 . 104.850	1992 . 101.200
1981 . 108.100	1987 . 104.200	1993 . 100.600

and thereafter at par to maturity.

Sinking Fund—Sufficient to retire $1,200,000 principal amount on May 15 in each of the years 1980 to 1994, inclusive. Company may also make optional sinking fund payments of up to $450,000 on May 15 in each of the same years.

Trustee—Canada Trust Co.

Offered—In 1975 by Dominion Securities Pitfield Limited.

Other Long-Term Debt—Also outstanding at Dec. 31, 1985, $314,792,000 including $304,992,000 (US$225,946,000) bank loans at rates from 8⅝% to floating rates, due to 1992; $186,156,000 (Y27,194,112,000) secured instalment purchase contract at floating rates not exceeding 7.9% due to 1996; $11,409,000 (Y1,655,880,000) obligation under conditional sales agreement at 8.9% due to 1997; $124,573,000 lease obligations at rates from 8¼% to 15⅝% due to 1993; $17,500,000 in bank loans at floating rates due to 1993; $10,000,000 in 12.075% notes payable to Canadian Pacific Securities Limited, due 1993; $3,575,000 in 8.3% debenture held by Canadian Pacific Securities Limited, due $275,000 annually to 1992 with balance due in 1993; and $9,597,000 other debt at rates up to 11%, due to 1997.

CANADIAN PACIFIC AIR LINES, LIMITED
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	1985	1984	1983	1982	1981	1980	1979
				$000's			
Assets							
Current:							
Cash	10,268	4,089	1,078	250	1,441	2,393	2,904
Deposits with parent	2,745	94,729	....	12,022	44,502	53,450	67,630
Accounts receivable	117,197	93,692	83,074	53,684	63,637	58,190	46,129
Due from parent co.	....	3,175	....	....	2,597	2,820	836
Income taxes recover.	6,239	....	....	....	121	1,483	....
Materials & supplies‡	58,817	41,480	37,956	31,042	31,241	24,433	19,820
Prepaid exps.	17,248	10,961	7,454	8,033	5,307	4,250	3,224
	212,514	248,126	129,562	105,031	148,846	147,019	140,543
Properties:							
Airline properties:							
Land, bldgs. & improve.	208,185	191,240	172,685	150,587	130,563	107,086	92,766
Flight equip.	1,239,019	1,042,453	987,697	967,989	812,106	584,017	496,817
Advances on equip.	....	....	....	17,844	8,988	34,895	10,708
Construction in progress	39,732	51,768	28,811	8,579	8,186	9,135	....
Hotel properties	247,750	227,927	297,290	....	....	....	....
	1,734,686	1,513,388	1,486,483	1,144,999	959,843	735,133	600,291
Less: Accum. deprec.	458,414	425,691	451,155	326,633	289,773	250,657	230,032
	1,276,272	1,087,697	1,035,328	791,943	652,896	440,446	359,551
Deferred charges	20,641	14,301	7,424	7,922	9,200	8,918	1,808
Deferred income taxes	....	....	....	10,629	....	....	....
	1,509,427	1,350,124	1,172,314	941,948	828,116	640,413	512,610
Liabilities							
Current:							
Bank loans	60,623	55,732	24,167	....	....	....	....
Accts. pay. & accrrued	242,990	175,377	164,084	143,206	134,375	116,175	103,025
Accts. pay. to parent co.	8,603	....	5,929	155	....	....	....
Demand loan from affil.	....	....	18,000	18,000	18,000	18,000	18,000
L.-t. debt due 1 yr.	71,931	87,782	66,765	62,426	49,929	34,081	26,445
Advance ticket sales	82,742	58,441	54,284	53,901	54,806	48,073	36,058
Income taxes payable	....	7,114	....	....	....	....	1,069
	466,889	384,446	333,229	277,688	257,110	216,329	184,597
Deferred income taxes	111,348	92,302	87,994	....	19,321	30,541	24,118
Long-term debt:							
1st mtge. bonds. ser. A	15,632	15,978	16,728	....	....	....	....
1st mtge. bonds, ser. B	22,680	22,780	24,880	....	....	....	....
Loans, notes, etc.	677,602	596,639	439,882	647,432	503,146	326,375	231,944
Less: Def. exch. adjust.	64,909	24,365	....	....	....	....	....
L.-t. debt due, 1 yr.	71,931	87,782	66,765	62,426	49,929	34,081	26,445
Minority int.	10,900	....	....	....	....	....	....
	579,074	523,250	414,725	585,006	453,217	292,294	205,499
Capital stock:							
Series A preference	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Series B preference	115,000	115,000	115,000	....	....	....	....
Common stock	218,520	218,520	218,520	60,000	40,000	20,000	20,000
Retained earnings	d42,304	d33,394	d47,154	d30,746	8,468	31,249	28,396
	1,509,427	1,350,124	1,172,314	941,948	828,116	640,413	512,610

‡Valued at lower of cost and net realizable value.

Lease Commitments—At Dec. 31, 1985, the company was committed to minimum annual rentals under long-term operating leases for hotels and restaurants as follows: $24,327,000 in 1986; $22,680,000 in 1987; $21,963,000 in 1988; $18,888,000 in 1989; $18,533,000 in 1990, and $164,131,000 thereafter.

Investment Tax Credits—In 1985, the company prospectively changed its method of accounting for investment tax credits. Prior to this change, investment tax credits were taken into income when utilized. Under the new policy, investment tax credits are deferred and amortized to income on the same basis as the assets to which they relate. For impact on earnings, see Accounting Change under Income Statement.

Foreign Currency Translation—In 1984, the company prospectively changed its method of accounting for foreign currency translation. Prior to this change, current assets and liabilities were translated at current rates of exchange and long term assets and liabilities at historical rates. Effective Jan. 1, 1984, the company adopted the recommendations of the Canadian Institute of Chartered Accountants. For impact on earnings see Accounting Change under Income Statement.

Other Commitments—During 1984, the company ordered 10 Boeing 737-300 aircraft for an estimated US$320,000,000. In 1985, agreement was reached to cancel five aircraft. Under the agreement, the company is to place US$13,000,000 in advance payments with Boeing. Advance payments made prior to Dec. 31, 1985 with respect to the cancelled aircraft will be applied by Boeing to reduce further commitment by the company.

CANADIAN PACIFIC AIR LINES, LIMITED
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
Years Ended December 31

	1985	1984	1983	1982	1981	1980	1979
				$000's			
Operating revenue	1,395,333	1,215,726	865,636	850,659	814,332	683,782	543,724
Less: Operating exps.	1,239,060	1,066,794	805,934	800,983	760,665	621,869	481,435
Net before deprec., etc.	156,273	148,932	59,702	49,676	53,667	61,913	62,289
Less: Deprec. & amort.	93,665	72,371	61,288	75,902	56,474	40,381	28,926
Interest expense‡	60,392	52,972	39,213	59,138	39,689	24,885	17,372
Income taxes: Current	▲6,239	8,222	....	22	▲535	▲2,129	2,068
Deferred	6,871	4,997	▲10,580	▲29,950	▲11,220	6,423	9,282
Exch. loss on l.-t. debt	15,292	9,766	....	....	....	....	....
Loss, CP Hotels	....	....	1,421	....	....	....	....
Add: Gain on disp., prop.	1,172	9,763	19,186	25,825	767	561	....
Other income (net)	11,050	6,851	▼673	▼5,081	12,479	13,925	11,693
Net income, oper.	d1,486	....	....	....	....	....	....
Less: Extraord. item	4,303	....	....	....	....	....	....
Net income	d5,789	17,218	d13,127	d34,692	d17,495	6,839	16,334
Add: Previous ret. earns.	d33,394	d47,154	d30,746	8,468	31,249	28,396	15,276
Less: Series A pfce.	3,121	3,458	3,281	4,522	5,286	3,986	3,214
Retained income	d42,304	d33,394	d47,154	d30,746	8,468	31,249	28,396

Accounting Change—In 1985, the company changed its method of accounting for investment tax credits on a prospective basis (See Investment Tax Credits under Balance Sheet). This changed increased net loss for 1985 by $3,100,000. In 1984, the company prospectively changed its method of accounting for foreign currency translation (See Foreign Currency Translation under Balance Sheet). This change resulted in an increased charge to operations of $2,200,000 for the year ended Dec. 31, 1984.

▼Subtract. ▲Credit. ‡Net of interest capitalized.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years Ended December 31

	1985	*1984
	$000's	
Sources (Uses) of Cash:		
Operating activities:		
Net income, operations	(1,486)	17,218
Depreciation & amortization	93,665	76,910
Deferred income taxes	6,871	4,997
Gain on disp. properties	(1,172)	(9,763)
Changes in curr. accounts	25,293	(13,500)
	123,171	75,862
Divds., pfce. shs., ser. A	(3,121)	(3,458)
Extraordinary item	(8,400)	....
Financing activities:		
Issue long-term debt	78,524	162,671
Repay. long-term debt	(85,578)	(72,943)
	(7,054)	89,728)
Investing activities:		
Additions to properties	(190,685)	(62,586)
Deferred charges	(9,678)	(7,869)
Acq. subsidiaries	(7,423)	(23,039)
Proceeds, disposal props.	12,494	15,537
	(195,292)	(77,957)
Increase (decr.) cash	(90,696)	84,175
Cash at beg. year	43,086	(41,089)
Cash at year-end	(47,610)	43,086

*As shown in 1985 Annual Report.

HISTORICAL SUMMARY

Year	Total Assets	Deposits C.P. Ltd.	Net Fixed Assets	Working Capital	L.-Term Debt	Shldrs.' Equity	Oper. Revenue	Net Inc. Oper.
				- $000's				
1967	45,268	14,722	9,676	8,075	....	23,497	95,225	3,209
1968	71,111	3,041	32,782	d7,292	12,362	24,288	106,698	2,351
1969	156,348	....	132,207	d32,498	78,581	26,350	133,717	3,495
1970	176,638	13,887	139,091	d20,948	85,697	33,170	149,583	1,003
1971	186,699	19,718	141,602	d18,571	90,306	33,877	157,945	2,140
1972	196,951	36,694	135,048	d10,570	88,683	36,888	172,148	5,161
1973	225,101	23,955	159,329	d26,457	111,761	28,937	185,920	4,199
1974	304,100	9,040	246,386	d53,429	167,826	29,218	276,787	2,441
1975	324,062	3,717	253,520	d62,128	187,427	21,740	331,178	d6,398
1976	303,897	8,650	251,421	d76,626	178,952	11,938	350,048	d9,802
1977	278,986	17,109	213,142	d58,516	148,039	15,278	393,586	3,340
1978	355,652	85,397	197,955	d12,722	130,980	65,276	465,829	20,872
1979	512,610	67,630	359,551	d44,054	231,944	98,396	543,724	16,334
1980	640,413	53,450	440,446	d69,310	326,375	101,249	683,782	6,839
1981	828,116	44,502	652,896	d108,264	503,146	98,468	814,332	d17,495
1982	941,948	12,022	791,943	d172,657	647,432	79,254	850,659	d34,692
1983	1,172,314	....	1,035,328	d203,667	481,490	336,366	865,636	d13,127
1984	1,350,124	94,729	1,087,697	d136,320	611,032	350,126	1,215,726	17,218
1985	1,509,427	2,745	1,276,272	d254,375	651,005	341,216	1,395,333	d1,486

(This information is obtained from sources we believe to be reliable, but is not guaranteed)

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